

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Significant Accounting Policies

A. Financial Statements and Reporting Entity

The accompanying financial statements of the State of Missouri (primary government) and its component units have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The State has elected not to follow the Financial Accounting Standards Board's pronouncements issued after November 30, 1989 for proprietary activities.

The financial statements include the departments, agencies, boards, commissions and other organizational units over which the State has financial accountability. GASB set forth the following criteria in Statement No. 14 – *The Financial Reporting Entity* for determining financial accountability: appointment of a voting majority of an organization's governing body and either: 1) the ability to impose the State's will on the organization or; 2) the organization's ability to provide specific benefits to, or impose specific burdens on, the primary government. Where the State does not appoint a voting majority of the governing body, the entity would still be included if it is fiscally dependent on the State. Statement No. 39 – *Determining Whether Certain Entities are Component Units* added a requirement to include all entities whose relationship with the State would make it misleading to exclude it.

In addition to the legislative, executive and judicial branches, the following organizations are included in these financial statements:

Component Units (Blended):

Blended component units are legally separate entities from the State, but are so intertwined with the State that they are, for all practical purposes, the same as the State. They are reported as part of the primary government and blended into the appropriate funds. The following component units are blended because they provide services entirely or almost entirely to the primary government:

Board of Public Buildings – The Board was created by state law and its governing body is made up of the Governor, the Lieutenant Governor and the Attorney General. Its purpose is to provide state buildings by issuing revenue bonds and to supervise the operations of these facilities. All construction contracts must be approved by the Division of Design and Construction and its projects must be approved by the General Assembly. The Board can require state agencies to occupy its projects. The General Assembly appropriates to the Board, on behalf of the state agencies, amounts sufficient to pay the principal and interest on the bonds, maintain certain required reserves and pay the costs of operations. Copies of the Board of Public Buildings' financial statements can be requested from:

Office of Administration
Deputy Commissioner's Office
P.O. Box 809
Jefferson City, Missouri 65102

Conservation Employees' Insurance Plan – The Plan provides health and life insurance coverage to eligible employees and retirees of the Missouri Department of Conservation. The Plan is administered by a five member board of trustees made up of two members determined by the Board and Commission from insurance members, the Business and Support Services Chief, the Human Resources Division Administrator, and the Internal Auditor. Copies of the Plan's financial statements can be requested from:

Missouri Department of Conservation
P.O. Box 180
Jefferson City, Missouri 65102

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Note 1 – Significant Accounting Policies (cont.)

Transportation Self-Insurance Plan – The Plan provides fleet vehicle liability, workers' compensation and general liability. The Plan is administered by the Office of Risk Management, which is a Division of the Missouri Department of Transportation. Copies of the financial statements can be requested from:

Missouri Department of Transportation
Highway Building, 2nd Floor
105 West Capitol Avenue
Jefferson City, Missouri 65101

Missouri Consolidated Health Care Plan (MCHCP) – The Plan was created by state law to provide medical benefits to its members and is administered by a board of trustees. The board consists of two members of the Senate, two members of the House, six members appointed by the Governor, the Director of the Department of Health and Senior Services, the Director of the Department of Insurance and the Commissioner of Administration. The management of MCHCP is the responsibility of the Executive Director who is appointed by the board. Copies of the Plan's financial statements can be requested from:

Missouri Consolidated Health Care Plan
P.O. Box 104355
832 Weathered Rock Court
Jefferson City, Missouri 65110-4355

Highway and Transportation Employees' and Highway Patrol Insurance Plan – The Plan provides health and life insurance coverage to eligible employees, retirees and their dependents of the Missouri Department of Transportation (MoDOT) and the Missouri State Highway Patrol (MSHP). The Plan is administered by a board of trustees consisting of four active MoDOT employees and one retired MoDOT employee appointed by the director of MoDOT, two active MSHP employees and one retired MSHP employee appointed by the superintendent of MSHP. Copies of the Plan's financial statements can be requested from:

Missouri Department of Transportation
Highway Building, 2nd Floor
105 West Capitol Avenue
Jefferson City, Missouri 65101

Missouri State Employees' Retirement System (MOSERS) – The System was created by state law and provides retirement, survivor, disability and life insurance to its members and is administered by a board of trustees. The board consists of two members of the Senate, two members of the House, two members appointed by the Governor, three members elected by the System's members, the State Treasurer and the Commissioner of Administration. The management of MOSERS is the responsibility of the Executive Director who is appointed by the board. Copies of the System's financial statements can be requested from:

Missouri State Employees' Retirement System
P.O. Box 209
907 Wildwood
Jefferson City, Missouri 65102-0209

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Note 1 – Significant Accounting Policies (cont.)

Highway and Transportation Employees' and Highway Patrol Retirement System – The System provides retirement, death and disability benefits to qualified employees of the Missouri Highways and Transportation Commission (includes employees of the Department of Transportation), and both uniformed and non-uniformed members of the State Highway Patrol. The System is administered by a board of trustees consisting of three members of the Missouri Highways and Transportation Commission, the director of the Missouri Department of Transportation, the superintendent of the State Highway Patrol, one member of the Senate, one member of the House, one member elected by MoDOT employees, one member elected by Patrol employees, and one retired member elected by retirees of the system. Copies of the System's financial statements can be requested from:

Missouri Highway and Transportation Employees'
and Highway Patrol Retirement System
P.O. Box 1930
Jefferson City, Missouri 65102-1930

Missouri State Public Employees' Deferred Compensation Commission – The Commission consists of one member of the House of Representatives, one member of the Senate and three other members appointed by the Governor with the advice and consent of the Senate. The Commission offers all employees the opportunity to participate in the Missouri State Public Employees' Deferred Compensation Plan. Under this Plan, employees are permitted to defer a portion of their current salary until future years. This Plan's fiscal year ends December 31, therefore, financial statements for its reporting period ending December 31, 2003, have been included in this report. In addition, the Commission offers eligible employees the opportunity to participate in the Missouri State Employees' Deferred Compensation Incentive Plan. Under this Plan, the State contributes \$25 per month on behalf of any employee who contributes at least that amount to the Missouri State Public Employees' Deferred Compensation Plan and who has been an employee of the State for at least one year. Copies of financial statements for both Plans can be requested from:

PEBSCO – A Division of Nationwide
Retirement Solutions, Inc.
One Nationwide Plaza, 1-13-G1
Columbus, Ohio 43215-2220

Component Units (Discretely Presented):

Discretely presented component units are legally separate entities for which the State is financially accountable. The financial data for these entities is reported separately from the financial data of the primary government.

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Note 1 – Significant Accounting Policies (cont.)

Major

Colleges and Universities – The Coordinating Board for Higher Education has certain responsibilities for these institutions and they receive State support. Following are the public colleges and universities included in the financial statements:

Central Missouri State University
213 Administration Building
Warrensburg, Missouri 64093

Northwest Missouri State University
105 Administration Building
800 University Drive
Maryville, Missouri 64468-6001

Harris-Stowe State College
3026 Laclede Avenue
St. Louis, Missouri 63103

Southeast Missouri State University
One University Plaza, Mail Stop 3000
Cape Girardeau, Missouri 63701

Lincoln University
207 Young Hall
Jefferson City, Missouri 65101

Southwest Missouri State University
901 South National, Room 119
Springfield, Missouri 65804

Linn State Technical College
1 Technology Drive
Linn, Missouri 65051

Truman State University
McClain Hall, Room 105
Kirksville, Missouri 63501

Missouri Southern State University
3950 East Newman Road
Joplin, Missouri 64801-1595

University of Missouri System
118 University Hall
Columbia, Missouri 65211-3020

Missouri Western State College
4525 Downs Drive
St. Joseph, Missouri 64507

Non-Major

Development Finance Board – The Board was created by state law as an independent, self-supporting, body corporate and politic to promote economic development of the State and is assigned to the Department of Economic Development. The twelve member board is made up of the Lieutenant Governor and the Directors of the Department of Economic Development and the Department of Agriculture, who serve as ex-officio voting members, and nine members appointed by the Governor and confirmed by the Senate. The Board is empowered to issue taxable and tax-exempt industrial revenue bonds or notes; provide loans or loan guarantees to eligible businesses; provide loans and grants to political subdivisions to fund public infrastructure improvements; and issue tax credits against certain state income taxes in exchange for contributions made to the Board. Copies of the Board's financial statements can be requested from:

Missouri Development Finance Board
Harry S Truman State Office Building, Room 680
301 West High Street
Jefferson City, Missouri 65101

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Note 1 – Significant Accounting Policies (cont.)

Agricultural and Small Business Development Authority – The Authority was created by state law and is authorized to issue bonds to finance agricultural and small business development loans for property acquisitions/renovations and pollution control facilities throughout the State. Its governing body consists of seven members appointed by the Governor with the advice and consent of the Senate. If for any reason, the Authority ceases to exist, all rights and properties of the Authority will pass to the State. Copies of the Authority's financial statements can be requested from:

Missouri Agricultural and Small
Business Development Authority
P.O. Box 630
1616 Missouri Boulevard
Jefferson City, Missouri 65102

Fulton 54 Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. The Corporation issued revenue bonds for the purpose of paying all or any part of the cost for the acquisition and construction of an overpass at the intersection of Route HH and U.S. Highway 54. Its governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed has been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
Highway Building, 2nd Floor
105 West Capitol Avenue
Jefferson City, Missouri 65101

Missouri Transportation Finance Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Nonprofit Corporation Law. The Corporation is financed by federal highway and transit dollars, plus state and local matching funds. It is authorized to issue revenue bonds. The Corporation provides loans to assist public and private entities fund highway and transportation projects throughout the State. The Missouri Highways and Transportation Commission determines which applicants are extended loans from the Missouri Transportation Finance Corporation. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
Highway Building, 2nd Floor
105 West Capitol Avenue
Jefferson City, Missouri 65101

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Note 1 – Significant Accounting Policies (cont.)

Missouri Highway 179 Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. The Corporation issued revenue bonds to finance the extension of Highway 179 from Highway 50 to Route B in Jefferson City. Its governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed has been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
Highway Building, 2nd Floor
105 West Capitol Avenue
Jefferson City, Missouri 65101

Missouri Highway 63 Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. The Corporation was formed to facilitate the addition of two lanes to US Highway 63 from Macon, Missouri to Millard, Missouri. The Corporation entered into an agreement with the City of Kirksville for passage of a sales tax to fund the project. The Corporation is governed by a board of directors consisting of fifteen representatives from cities and counties along the expansion area, who are selected by the Kirksville Chamber of Commerce. When the purpose for which the Corporation was formed has been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
Highway Building, 2nd Floor
105 West Capitol Avenue
Jefferson City, Missouri 65101

Springfield, MO State Highway Improvement Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. The Corporation issued revenue bonds to finance lane expansions, interchange improvements and relocations, and drainage projects in the City of Springfield. Its governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed has been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
Highway Building, 2nd Floor
105 West Capitol Avenue
Jefferson City, Missouri 65101

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Note 1 – Significant Accounting Policies (cont.)

Wentzville Parkway Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. The Corporation issued bonds to finance the expansion and reconstruction of the Pearce Boulevard Interchange. Its governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed has been complied with and all obligations have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
Highway Building, 2nd Floor
105 West Capitol Avenue
Jefferson City, Missouri 65101

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements:

The government-wide financial statements focus on the government as a whole. The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Governmental activities include governmental type funds and internal service funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and consist of enterprise funds.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions or enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the General Assembly.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Indirect costs, such as depreciation expense, are included in the direct expenses reported for individual functions. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

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Note 1 – Significant Accounting Policies (cont.)

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide statements. For governmental and proprietary fund financial statements, the emphasis is on major individual governmental and enterprise fund categories, with each displayed in a separate column. All remaining governmental and enterprise fund categories are aggregated and reported as non-major funds. Internal service fund categories are also aggregated and reported in a separate column on the proprietary fund financial statements.

C. Basis of Presentation

The State's financial practices are based upon fund accounting concepts. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and fund balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The accompanying financial statements are structured into three categories of funds and discretely presented component units:

Primary Government:

Governmental Funds include the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. These funds account for the revenues and expenditures, capital outlay, and certain debt service of the State.

Proprietary Funds include enterprise funds and internal service funds. These funds account for the cost of certain services provided by the State.

Fiduciary Funds include pension (and other employee benefit) trust funds, private-purpose trust funds, and agency funds. These funds account for assets held by the State in a trustee capacity or as an agent for individuals, other governments and other funds.

Discretely Presented Component Units:

Major

Colleges and Universities account for moneys from federal and state grants, debt proceeds, gifts and contributions, state appropriations, investments, and endowments. Assets and liabilities are accounted for on the Statement of Net Assets. Revenues, expenses, gains, and losses are reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Non-Major

Non-Major Component Units account for moneys from bond proceeds, loans, contributions, gifts, grants, and sales tax proceeds. Assets and liabilities are accounted for on the Statement of Net Assets. Revenues, expenses, gains and losses are reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

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Note 1 – Significant Accounting Policies (cont.)

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred. Fiduciary funds have been excluded from the government-wide financial statements because, by definition, the resources of these funds cannot be used to support government operations. Generally, interfund transactions have also been eliminated. Some interfund transactions, such as the exchange of services, were not eliminated because doing so would mistakenly understate both expenses of the buyer and revenues of the seller.

Fund Financial Statements:

The governmental fund financial statements are presented using the current financial resources measurement focus and modified accrual basis of accounting. With the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to pay current period liabilities. Operating statements of governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance. Material revenues susceptible to accrual include federal grants, and sales and income taxes. Expenditures are recognized when the related fund liability is incurred except for the following:

- Principal and interest on general long-term debt is recorded as an expenditure when due.
- Compensated absences (accumulated vacation and compensatory time) and sick pay are recorded as expenditures when paid.
- Inventories are reported as expenditures when purchased, except for the State Road Fund, which updates inventory perpetually under the consumption method.

The proprietary, pension (and other employee benefit) trust, and private-purpose trust fund financial statements are presented using the economic resources measurement focus and accrual basis of accounting. With the economic resources measurement focus, assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. The agency fund financial statements are presented on the accrual basis of accounting.

The discretely presented component unit financial statements are presented using the economic resources measurement focus and accrual basis of accounting with the following exception in regard to colleges and universities. Revenues and related expenditures in connection with the summer sessions in progress at June 30 are deferred at that date.

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Note 1 – Significant Accounting Policies (cont.)

The State reports the following major funds categories:

General Fund – accounts for all current financial resources not required by law or administrative action to be accounted for in another fund.

Public Education – provides general and special education needs of the State and other related areas such as library services and student loans.

Conservation and Environmental Protection – provides for the preservation of the State's wildlife and environment.

Transportation and Law Enforcement – provides transportation services, road construction and maintenance, and the enforcement of vehicle laws and traffic safety.

State Road – accounts for revenues from highway users' fees, federal reimbursements for highway projects, and bond proceeds to be used for costs of constructing and maintaining an adequate state highway system.

State Lottery – accounts for proceeds from the sale of lottery tickets and all other moneys credited or transferred to this fund. A minimum of 45% of the moneys are used for prizes.

Unemployment Compensation – accounts for contributions, payments, and federal loans collected under the provisions of the "Unemployment Compensation Law" to pay benefits.

Petroleum Storage Tank Insurance – accounts for moneys collected from transport load fees and participating owners of petroleum storage tanks for cleanup of contamination caused by releases from petroleum storage tanks.

The State also reports the following non-major fund types:

Governmental – accounts for current financial resources of the government. Governmental funds include special revenue funds, which are established for a specific function; debt service funds, which accumulate resources for the payment of long-term debt principal and interest; capital projects funds, which accumulate resources for the acquisition and construction of capital assets; and permanent funds, which are legally restricted.

Proprietary – accounts for operations that are funded through fees or a cost reimbursement basis. Proprietary funds include enterprise funds, which sell products and services to external parties and internal service funds, which sell products and services to other government agencies.

Fiduciary – accounts for assets held by the State in a trustee or agent capacity. Examples of such assets include Missouri State Employees' Retirement System contributions, social security contributions, and unclaimed property.

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Note 1 – Significant Accounting Policies (cont.)

E. Budgets

The State's annual budget is prepared principally on the cash basis and represents departmental appropriations passed by the General Assembly and approved by the Governor prior to the beginning of the fiscal year. Appropriations can only be amended through the normal appropriation process which requires approval of the General Assembly and the Governor. Certain estimated original appropriation amounts may be increased as necessary. If supplemental appropriations are required for an appropriation year, they are enacted during the next legislative session by the same process used for original appropriations. During the year, supplemental appropriations of \$240,375,000 were required, 85% for Human Services, 10% for Education, and the remainder for other functions. Estimated appropriations were increased by \$516,535,000.

Budgetary control is maintained at the individual appropriation level since expenditures cannot exceed the appropriation amounts. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve part of the appropriation, is employed for the purposes of budgetary control and contract compliance. Encumbrances at year end do not constitute expenditures or liabilities.

The Governor has the authority to reduce the allotments of appropriations in any fund if it appears that revenues for the fiscal year will fall below estimated revenues. Unexpended appropriations lapse at the end of each appropriation year. Certain appropriations referred to as "reappropriations" represent the continuation of a prior year's program or project which requires additional time for completion. There were no reappropriations to fiscal year 2005.

F. Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents include bank accounts, petty cash and all investments with an original maturity of three months or less, such as certificates of deposit, money market certificates and repurchase agreements. Cash balances of most state funds are pooled and invested by the State Treasurer (see *Note 3*).

G. Investments

These are long-term investments which are expected to be held to maturity and redeemed at face value. The majority of investments are reported in pension (and other employee benefit) trust funds, however, investments are held in all fund types. All investments are reported at fair value (see *Note 3*).

H. Receivables

Receivables include primarily federal revenue amounts, accrued interest on investments and taxes receivable. Receivables are reported net of allowances for uncollectibles of \$1,072,407,000 for governmental activities and \$16,000 for business-type activities (see *Note 14*).

I. Interfund Receivables/Payables

The State makes various transactions between funds or between primary government and component units to distribute interest earnings, finance operations, provide services, service debt, and acquire capital assets. These receivables at June 30 are classified as "due from other funds" or "due from primary government/component units" on the Statement of Net Assets. Payables are classified as "due to other funds" or "due to primary government/component units" on the Statement of Net Assets (see *Note 15*).

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J. Advances to/from Other Funds

Long-term interfund receivables are classified as "advances to other funds" or "advances to primary government/component units" on the Statement of Net Assets. Long-term interfund payables are classified as "advances from other funds" or "advances from primary government/component units" on the Statement of Net Assets (see *Note 15*).

K. Inventories

Inventories in the governmental funds consist of expendable supplies held for consumption, the cost of which is recorded as an expenditure at the time of purchase, except for the State Road Fund, which updates inventory perpetually under the consumption method. Reserves of fund balance have been established for the inventory balances in governmental funds. Inventories in the proprietary funds consist of both expendable supplies held for consumption and the cost of goods held for resale, the cost of which is recorded as an expense as they are used. Inventories are valued at cost using various methods such as moving average, weighted average and first-in, first-out.

L. Deferred Charges

Deferred charges represent issuance costs on bonds and are amortized over the life of the related issue.

M. Restricted Assets

These moneys are restricted by donors and applicable bond indentures.

N. Capital Assets

Capital assets, which include construction in progress, infrastructure in progress, land, land improvements, buildings, equipment, and infrastructure assets, are valued at historical cost or estimated historical cost if actual historical cost is not available. The estimate of historical cost was based on current appraised value indexed to the date of acquisition. Donated capital assets are reported at estimated fair value at the time received. Capital assets acquired through lease agreements are capitalized at the inception of the agreement (see *Notes 5 and 6*).

Infrastructure assets (including highways, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items) are capitalized. Interest costs incurred during construction of capital assets are not capitalized.

The capitalization threshold for all capital assets is as follows: land improvements, \$15,000; buildings and improvements, \$15,000; and equipment, \$1,000. No dollar threshold is set for land or infrastructure.

Capital assets are depreciated using the straight-line method of depreciation over the following useful lives: buildings – 40 years, land improvements and building improvements – 20 years, equipment – 5 years, and infrastructure 12 to 50 years. Construction in progress, infrastructure in progress, and land are not depreciated.

Most works of art and historical treasures are not capitalized or depreciated. The State's non-capitalized collections include the historical artifacts at the various state museums and historical sites, monuments, and other art throughout the capital grounds. Assets that were previously capitalized continue to be reported in the government-wide financial statements.

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Component unit capital assets are stated at cost and are depreciated using the straight-line method of depreciation over the following useful lives: buildings – 40 years, land improvements and building improvements – 20 years, and equipment – 5 years.

O. Deferred Revenues

Primary Government

Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met for governmental funds, which use the modified accrual basis of accounting. Therefore, such amounts are reported within the governmental fund financial statements as receivables and offset by a deferred revenue account. These amounts include \$438,747,000 within the General Fund, \$23,706,000 within the major special revenue funds, \$28,625,000 within the State Road Fund, and \$6,561,000 within non-major governmental funds which totals \$497,639,000 for governmental funds. Such amounts have been deemed to be measurable but not available. For the State of Missouri, the availability period is 60 days.

Deferred revenues also include amounts collected in advance of the year in which earned. The State has reported as such deferred revenues the amount of \$30,029,000 within the General Fund, \$2,563,000 within major special revenue funds, \$10,851,000 within the State Road Fund, and \$19,741,000 within the internal service funds which totals \$63,184,000 for governmental activities. Total deferred revenue for business type activities is \$603,000 which includes \$562,000 within the Petroleum Storage Tank Insurance Fund, \$41,000 within the non-major enterprise funds.

Component Units

Deferred revenue amounts collected in advance of the year in which earned are reported in the amount of \$71,667,000 within the college and university funds and \$22,049,000 within the non-major component units which totals \$93,716,000 for component units.

P. Long-Term Debt

Long-term liabilities that will be financed from governmental funds are not reported on the fund financial statements. However, the long-term liabilities are reported on the government-wide financial statements. The reconciliation between fund financial statements and government-wide financial statements includes a line item for the long-term liabilities of governmental funds. These long-term liabilities include the following:

1. Due to Other Entities includes outstanding principal on advances from other governments, contractual obligations to other governments, and loans from other entities. The expenditures are recorded in the appropriate governmental funds when the liability is paid (see *Note 11*).
2. Outstanding principal for general obligation debt. The expenditure for payment of principal and interest for general obligation debt is recorded in the debt service funds when paid (see *Note 12*).
3. Outstanding principal for revenue bonds issued by the Board of Public Buildings, bonds issued by the Health and Educational Facilities Authority, bonds issued by the Regional Convention and Sports Complex Authority, and State Road bonds issued by the Missouri Highways and Transportation Commission. The expenditure for payment of principal and interest for these bonds is recorded in the appropriate governmental funds when paid (see *Note 12*).

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4. Bond premiums are deferred and amortized over the life of the bonds using the effective interest rate method in the government-wide financial statements. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, governmental fund types recognize bond premiums during the current period. Premiums on debt issuances are reported as other financing sources (see *Note 11*).

5. Obligations under lease/purchases reported include the present value of net minimum future lease payments, which will be paid from the General Fund, various special revenue funds, and the State Road Fund (see *Notes 6 and 11*).
6. Compensated absences include accumulated unpaid vacation and compensatory time accruals and related employer payroll taxes. These amounts are not accrued in the governmental funds but are recorded as expenditures when paid (see *Note 11*).

Vacation leave is accumulated at a rate of 10 to 14 hours a month depending on the number of years of employment. Accumulated vacation leave cannot exceed twice the number of vacation hours earned annually. Compensatory time is accumulated as earned by an individual employee.

Sick leave is accumulated at a rate of 10 hours per month with no limit to the amount which can be accumulated. Accumulated sick leave is not paid upon employee termination and does not represent a liability of the State.

The expenditures for all compensated absences are made primarily from the General Fund and special revenue funds.

7. Claims and judgments include estimates of the risk of loss related to tort liability, general liability, motor vehicle liability, contractor liability, and injuries to employees. Claims liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Expenditures are recorded in the fund from which the liability is paid (see *Notes 11 and 22*).

Long-term liabilities of all proprietary, pension (and other employee benefit) trust, and private-purpose trust funds are accounted for in the respective funds.

Q. Net Assets/Fund Balance

The difference between fund assets and liabilities is reported as “Net Assets” on the government-wide, proprietary, and fiduciary fund statements, and “Fund Balance” on the governmental fund financial statements. A description of “Restricted Net Assets” is presented in Part B of this note disclosure.

On the governmental fund financial statements, “reserves” represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Following is a list of reserves used by the State of Missouri and a description of each:

Reserved for Budget Reserve – An account used to meet the cash flow requirements and program funding requirements of the State.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Significant Accounting Policies (cont.)

Reserved for Inventories – An account used to segregate a portion of fund balance to indicate that inventories do not represent available, spendable resources.

Reserved for Future Distribution – An account used to segregate a portion of fund balance for the specific future use of other entities.

Reserved for Landfill Postclosure – An account used to segregate a portion of fund balance to pay postclosure costs for landfill owners that have defaulted on their obligation to pay postclosure care costs (see *Note 27*).

Reserved for Taxes – An account used to segregate a portion of fund balance for taxes received for which payment was made under protest and for bonds filed by license holders for security against default of payment of tax liabilities.

Reserved for Debt Service – An account used to segregate a portion of fund balance for debt service resources legally restricted to the payment of general long-term debt principal and interest amounts maturing in future years.

Reserved for Loans Receivable – An account used to segregate a portion of fund balance to indicate that loans receivable do not represent available, spendable resources.

Reserved for Trust Principal – An account used to segregate a portion of fund balance to indicate the principal amount of permanent funds that is legally restricted for a specific future purpose.

R. Revenues

The revenues of the General Fund include federal grants and contributions of \$6,592,546,000. Revenues for all funds are reported net of refunds of \$1,484,535,000.

S. Interfund Transactions

During the fiscal year the State incurs various transactions between funds, including expenditures and transfers of resources to distribute interest earnings, finance operations, provide services, construct assets, and service debt. Interfund transactions basically consist of these two types:

1. Transactions that would be treated as revenues or expenditures/expenses if they involved organizations external to the State are similarly treated when involving other funds of the State. Major transactions that fall into this category include payments to internal service funds from other funds for services rendered and to agency funds for contributions for employee benefits.
2. Transfers from funds receiving revenues to funds through which the resources are to be expended and operating subsidies are classified as transfers (see *Note 16*).

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Significant Accounting Policies (cont.)

T. Expenditures and Expenses

Expenditures and expenses are reported net of revenue over collections of \$1,155,002,000 and \$863,000, respectively. Expenditures and expenses are reported net of overpayments to vendors, individuals, school districts and for cost reimbursements of \$327,865,000 and \$805,000, respectively.

U. Property Taxes

Presently there is a state property tax of three cents on each hundred dollars assessed valuation on all real estate and personal property. The tax collected is deposited into the Blind Pension Fund.

The property taxes in Missouri are levied by October 31 of each year on assessed valuation as of January 1 of that year. Property taxes are due and payable by December 31 and penalties on unpaid taxes are imposed after that date. Assessed values are established by each county assessor's office and are calculated as a percent of market value except for agricultural land which is calculated on productive capability. The percentage for real property varies according to use: residential at 19%, commercial at 32% and agricultural at 12%. Personal property is assessed according to type with the majority at 33 1/3% of market value.

Note 2 – Reporting Changes and Reclassifications

The Missouri State Public Employees' Deferred Compensation (IRC 457) Plan has been reclassified from a private-purpose trust fund to a pension (and other employee benefit) trust fund for the fiscal year ended June 30, 2004.

The State of Missouri implemented the following new accounting standard issued by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2004:

- Statement No. 40, *Deposit and Investment Risk Disclosures*.

Statement No. 40 amends Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Statement No. 40 revises the existing requirements regarding disclosure of custodial credit risk, as required by Statement No. 3 and establishes new requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Note 3 – Deposits, Investments and Securities Lending Program

The State Treasurer maintains a cash and short-term investment pool that is used by substantially all state funds. These funds do not include accrued interest. Certain organizational units are authorized to administer assets designated to their organization in a manner similar to the deposit and investment activities of the State as a whole. Summarized below is the portfolio that represents the "Cash and Cash Equivalents", "Investments", "Restricted Assets – Cash and Cash Equivalents", "Restricted Assets – Investment" and "Bank Overdraft" as reported at June 30, 2004.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

A. Deposits

The State minimizes custodial credit risk by restrictions set forth in state law. Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure the State would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. Statutes restrict the State Treasurer to deposit funds in financial institutions that are physically located in Missouri which are selected based on financial stability and community involvement. The financial institution's loan to deposit ratio must exceed 50% at the time of deposit and deposits must be collateralized at least 100% with approved securities. Deposits must have a maturity of five years or less and earn interest at a rate equal to that paid on U.S. Treasury securities with equivalent maturities.

Primary Government

At June 30, 2004, the reported amount of the primary government's deposits was \$516,365,000 and the bank balance was \$518,815,000. Of the bank amount, \$163,000 was uncollateralized, \$115,832,000 was collateralized with securities held by the counterparty's trust department or agent in the State's name, and \$62,000 was collateralized with securities held by the counterparty's trust department or agent but not in the State's name.

Fiduciary

At June 30, 2004, the reported amount of the deposits of the fiduciary funds was \$323,416,000 and the bank balance was \$323,416,000. Of the bank amount, \$2,422,000 was uncollateralized.

Component Units

At June 30, 2004, the reported amount of the deposits of the component units was \$411,158,000 and the bank balance was \$383,167,000. Of the bank amount, \$2,960,000 was uncollateralized, \$201,130,000 was collateralized with securities held by the counterparty's trust department or agent in the component units' name, and \$125,370,000 was collateralized with securities held by the counterparty's trust department or agent but not in the component units' name.

B. Investments

Statutes authorize the State Treasurer to invest in U.S. Treasury or Agency securities maturing within five years, commercial paper and banker's acceptances maturing within 180 days, or in repurchase agreements maturing within ninety days secured by U.S. Treasury or Agency securities of any maturity. The internal service funds, the agency and pension (and other employee benefit) trust funds, and the component units, in accordance with statutory authority, invest primarily in U.S. Government securities, repurchase agreements, preferred and common stocks, bonds, real estate, and fixed income securities. There have been no violations of these investment restrictions during fiscal year 2004.

The State Treasurer minimizes credit risk, the risk of loss due to the failure of the security issuer or backer, by establishing a pre-approved list of financial institutions and companies that will be used to purchase commercial paper. The State Treasurer also conducts regular credit monitoring, pre-qualifies the financial institutions and brokers/dealers with which the Treasurer's Office will do business for broker services and repurchase agreements, and diversifies the portfolio to reduce potential losses on individual securities.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

Primary Government

At June 30, 2004, the reported amount of the primary government's investments was \$2,799,220,000. Of the amount, \$100,952,000 was uninsured and unregistered with securities held by the counterparty's trust department or agent in the State's name.

Fiduciary

At June 30, 2004, the reported amount of the fiduciary funds investments was \$8,298,574,000. Of the amount, \$30,000 was uninsured and unregistered with securities held by the counterparty's trust department or agent in the State's name, and \$1,043,645,000 was uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the State's name.

Component Units

At June 30, 2004, the reported amount of the component units investments was \$1,604,581,000. Of the amount, \$1,319,095,000 was uninsured and unregistered with securities held by the counterparty's trust department or agent in the component units' name, and \$5,667,000 was uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the component units' name.

The following table (in thousands of dollars) provides information about the interest rate risks associated with the State's investments. The investments include certain short-term cash equivalents, various long-term items, and restricted assets by maturity in years. The State Treasurer minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining an effective duration of less than 1.5 years, and holding at least 40% of the portfolio's total market value in securities with a maturity of 12 months or less.

		Maturities in Years					
		Less than 1	1-5	6-10	More than 10	No Maturity	Fair Value
All Fund Types except Fiduciary Funds and Component Units:							
U.S. Government							
Securities	\$	817,997	\$ 952,923	\$ 21,802	\$ 7,185	\$ ---	\$ 1,799,907
Repurchase							
Agreements		458,083	---	---	---	---	458,083
Stocks		---	---	---	---	2,927	2,927
Commercial Paper		514,868	---	---	---	---	514,868
Mutual Funds		---	---	---	---	23,107	23,107
Short-term							
Securities		328	---	---	---	---	328
Subtotal		1,791,276	952,923	21,802	7,185	26,034	2,799,220

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

	Maturities in Years					Fair Value
	Less than 1	1-5	6-10	More than 10	No Maturity	
Fiduciary Funds:						
U.S. Government Securities	15,086	269,929	1,114,397	1,212	---	1,400,624
Repurchase Agreements	257,324	---	---	---	---	257,324
Stocks	---	---	---	---	2,258,494	2,258,494
Commercial Paper	1,346	---	---	---	---	1,346
Bonds	6,622	488,501	19,737	---	---	514,860
International Equities	930,636	---	---	---	---	930,636
Mortgages/Real Estate	43,725	164,296	57,424	73,395	92,439	431,279
Short-Term Securities	39,648	---	---	---	---	39,648
Deferred Compensation	---	---	---	---	6,278	6,278
Foreign Securities	---	---	---	---	7,540	7,540
Mutual Funds	---	---	---	---	1,034,341	1,034,341
EAFE Index Fund	---	---	---	---	171,079	171,079
Venture Capital Limited Partnership	---	---	---	---	1,245,125	1,245,125
Subtotal	<u>1,294,387</u>	<u>922,726</u>	<u>1,191,558</u>	<u>74,607</u>	<u>4,815,296</u>	<u>8,298,574</u>
Component Units:						
U.S. Government Securities	149,667	610,724	1,146	100	---	761,637
Repurchase Agreements	7,188	---	---	---	---	7,188
Stocks	---	---	---	---	438,195	438,195
Bonds	1,297	212,562	---	---	---	213,859
Real Estate	---	---	---	---	42,689	42,689
Mutual Funds	---	---	---	---	6,307	6,307
Bankers' Acceptances	2,000	---	---	---	---	2,000
Other	<u>2,360</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>130,346</u>	<u>132,706</u>
Subtotal	<u>162,512</u>	<u>823,286</u>	<u>1,146</u>	<u>100</u>	<u>617,537</u>	<u>1,604,581</u>
Total Investments	<u>\$ 3,248,175</u>	<u>\$ 2,698,935</u>	<u>\$ 1,214,506</u>	<u>\$ 81,892</u>	<u>\$ 5,458,867</u>	<u>\$ 12,702,375</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

The State minimizes concentration of credit risk, the risk attributed to the magnitude of an investment in a single issuer. State statute prohibits the State Treasurer from investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. securities and repurchase agreements. There are no restrictions in the amount that can be invested in U.S. securities, however, there can be no more than 15% of the total portfolio invested in repurchase agreements. During fiscal year 2004, the State did not have more than 5% of total investments in a single issuer.

The State Treasurer requires investments in commercial paper and bankers' acceptances have the highest letter and numerical ranking (A1/P1) as rated by Moody's Investor Service, Inc. (Moody's) and Standard & Poor's Corporation (S & P). The Treasurer does not have any additional policies regarding credit ratings of investments. The following table (in thousands of dollars) provides information on the credit ratings associated with the State's investments in debt securities.

	Moody's	S & P	Fair Value
Primary Government/Fiduciary:			
Bonds	Aaa	AAA	\$ 52,730
	AA	AA	22,001
	A	A	256,894
		BBB	10,531
	B		93,707
	BB		35,856
	CCC		23,342
	CC		1,027
	unrated	unrated	18,772
Commercial Paper	A-1	P-1	99,926
	P-1	A-1	416,288
Repurchase Agreement	P-1	A-1	356,298
	unrated	unrated	359,109
Mortgages/Real Estate	Aaa	AAA	173,331
	unrated	unrated	257,948
Subtotal			<u>2,177,760</u>
Component Units:			
Bonds	A	A	1,942
	unrated	unrated	211,917
Bankers' Acceptances	P-1	A-1	<u>2,000</u>
Subtotal			<u>215,859</u>
Total Rated Investments			<u><u>\$ 2,393,619</u></u>

The State Treasurer does not have a policy regarding foreign currency risk, which is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table (in thousands of dollars) provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. The State Treasurer's Office does not have any deposits or investments in foreign currency, however, the Missouri State Employees' Retirement System and the Missouri Highway and Transportation Employees' and Highway Patrol Retirement System do have foreign currency deposits and investments which may be used for hedging purposes. In addition to the amounts provided in the table, the University of Missouri System had \$294,808,000 in government obligations, \$83,119,000 in bonds, \$496,500 in stock, and \$2,877,000 in other investments held in foreign currencies as of June 30, 2004.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

	Foreign Currency	U.S. Dollars (In Thousands)
Fiduciary:		
Cash	Australian Dollar	\$ 211
	British Pound Sterling	(51,165)
	Euro	33,954
	Japanese Yen	21,686
	Swedish Krona	92
	Swiss Franc	25
Equities	Argentina Peso	579
	Australian Dollar	18,167
	Brazilian Real	16,917
	British Pound Sterling	316,932
	Canadian Dollar	29,064
	Chilean Peso	4
	Colombian Peso	25
	Czech Koruna	2,516
	Danish Krone	17,437
	Egyptian Pound	538
	Euro	299,545
	Hong Kong Dollar	46,742
	Hungarian Forint	973
	Indian Rupee	3,479
	Indonesian Rupiah	7,742
	Israeli Shekel	1,594
	Japanese Yen	303,732
	Jordanian Dinar	33
	Malaysian Ringgit	5,048
	Mexican Peso	14,524
	New Zealand Dollar	973
	Norwegian Krone	9,966
	Pakistani Rupee	53
	Peruvian Nuevo Sol	101
	Philippine Peso	2,056
	Polish Zloty	1,409
	Russian Ruble	10
	Singapore Dollar	24,803
	South African Rand	21,920
	South Korean Won	31,527
	Sri Lanka Rupee	2
	Swedish Krona	21,519
	Swiss Franc	82,152
	Taiwan New Dollar	14,050
	Thai Baht	3,840
	Turkish Lira	4,691
Fixed Income Securities	Euro	845
	Japanese Yen	1,461
	Mexican Peso	51
	New Zealand Dollar	1
	South Korean Won	2,974
	Swiss Franc	1
Foreign Deposits and Investments		<u>\$ 1,314,799</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

C. Securities Lending Program

State Treasurer's Office:

The Missouri State Treasurer's Office participates in a securities lending program to augment investment income. Authority to participate rests in Section 30.260.5 RSMo. The program is administered by U.S. Bank as the State Treasurer's custodial agent bank, which lends certain securities to registered broker-dealers as approved by the State Treasurer's Office in exchange for collateral. At least 75% of the collateral received must match the maturities of the securities lent with a maximum duration gap between loans and investments of 15 days. The maximum life of term loans shall be 90 days. Collateral may be in the form of cash, securities issued or guaranteed by the United States Government or its agencies, or bank letters of credit or equivalent obligation if pre-approved by the State Treasurer's Office. Collateral must be provided in the amount of 102% of the then market value of the loaned securities and accrued interest, if any. The Custodian (U.S. Bank) provides for full indemnification to the State Treasurer's Office for any losses that might occur in the program due to borrower default, insolvency, or failure to return loaned securities.

At June 30, 2004, the State Treasurer's Office had an aggregate fair value of securities lent of \$1,632,357,000 and an aggregate fair value of collateral received of \$1,665,303,000.

Missouri State Employees' Retirement System:

The Missouri State Employees' Retirement System's (MOSERS) Board of Trustees' investment policies permit the pension trust funds to participate in securities lending programs. Lehman Brothers, who acts as the exclusive borrower of the domestic equity securities and Credit Suisse/First Boston, who manages the lending of fixed income and international securities, manage the programs. Certain securities of the pension trust funds are loaned to participating brokers who provide collateral in the form of cash, U.S. Treasury or Government Agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% of market value for domestic loans and 105% of market value for international loans. In order to reduce credit risk in this exclusive agreement, MOSERS has placed a cap of \$250 million on the amount of securities that can be on loan at any given time. The Custodian (Bankers Trust Company) provides for full indemnification to the pension trust funds for any losses that might occur in the program due to broker default, insufficiency of collateral, or operations risk associated with corporate actions and income collection. Full indemnification and daily monitoring of securities that are on loan ensure proper collateralization levels and mitigate counterparty risk.

The majority of the security loans are open loans and can be terminated on demand by either MOSERS or the borrower. Cash collateral is invested in short-term investment funds. The cash collateral investments of the Lehman Brothers and Credit Suisse program each had a weighted average maturity of 28 days as of June 30, 2004.

Investment income derived from the domestic loans and international equity lending programs are subject to minimum guarantees.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

Missouri Highway and Transportation Employees' and Highway Patrol Retirement System:

In accordance with the investment policies set by the board of trustees, the Missouri Highway and Transportation Employees' and Highway Patrol Retirement System (the System), lends its securities to broker-dealers and banks pursuant to a form of loan agreement. The System's custodial bank is authorized to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the System lent securities and received cash, securities insured or guaranteed by the U.S. government or its agencies, and irrevocable bank letters of credit as collateral. The System did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in dollars or whose primary trading market was located in the United States, 102% of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the custodial bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the year.

The System and borrowers maintained the right to terminate all securities lending transactions on demand. The collateral held at June 30, 2004, was \$166,553,000 and the market value of securities on loan for the System was unavailable as of the System's report date.

At June 30, 2004 and 2003, the System earned \$333,000 and \$129,000, respectively, on the securities lending program.

University of Missouri System:

The University participates in a securities lending program to augment income. The program is administered by the University's custodial agent bank, which lends certain securities for a predetermined period of time, to an independent broker/dealer (borrower) in exchange for collateral. Collateral may be cash, U.S. government securities, defined letters of credit or other collateral approved by the University. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of international securities are initially collateralized at 105% of the fair value of securities lent. The University has minimized its exposure to credit risk from borrower default by having the custodial agent bank determine daily that required collateral meets a minimum of 100% of the market value of securities on loan for domestic securities lent and 105% for international securities lent. The University continues to receive interest and dividends during the loan period as well as a fee from the borrower. At June 30, 2004, the University has no credit risk exposure since the collateral held exceeds the value of the securities lent. The University is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

In addition, at June 30, 2004, letters of credit and security collateral, not meeting the criteria for inclusion on the Combined Statement of Net Assets, totaled \$3,555,000. At June 30, 2004, the aggregate fair value of the securities lent was \$60,000,000 and the aggregate fair value of the collateral received was \$62,138,000.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

D. Derivatives

Missouri State Employees' Retirement System (MOSERS), through its external investment managers, has an investment policy which holds investments in futures contracts, swap contracts, and forward foreign currency exchange contracts. MOSERS does not anticipate additional significant market risk from the swap arrangements. The forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign equities. MOSERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MOSERS anticipates that the counterparties will be able to satisfy their obligation as credit evaluations and credit limits are monitored by the investment managers. MOSERS also invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk.

The following table (in thousands of dollars) summarizes the various contracts in MOSERS portfolio as of June 30, 2004. The investments are reported at fair value and are included on the Statement of Plan Net Assets of the pension trust funds.

Futures Contracts:

<u>Notional Amount</u>	<u>Exposure</u>
\$355,581	\$4,877

Swaps:

<u>Notional Amount</u>	<u>Counterparty Exposure</u>
\$48,056	\$(1,991)

Note 4 – Federal Surplus Commodities Inventory

The federal surplus commodities inventory for the Department of Social Services and the Department of Health and Senior Services were \$318,000 and \$4,303,000, respectively, as of June 30, 2004. This inventory is not considered to be an asset of the State and is not included in the financial statements.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows (in thousands of dollars):

	*Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental Activities:				
Capital Assets not being Depreciated:				
Construction in Progress	\$ 532,901	\$ 131,314	\$ (81,806)	\$ 582,409
Infrastructure in Progress	2,814,252	975,726	(778,512)	3,011,466
Land.....	2,352,941	41,732	(4,076)	2,390,597
Total Capital Assets not being Depreciated	5,700,094	1,148,772	(864,394)	5,984,472
Capital Assets being Depreciated:				
Land Improvements.....	88,088	2,459	(58)	90,489
Buildings and Improvements	2,014,496	28,457	(28,384)	2,014,569
Equipment	1,092,064	99,466	(71,508)	1,120,022
Infrastructure	36,638,118	745,178	(70,460)	37,312,836
Total Capital Assets being Depreciated	39,832,766	875,560	(170,410)	40,537,916
Less Accumulated Depreciation for:				
Land Improvements.....	48,691	3,032	(56)	51,667
Buildings and Improvements	707,102	55,257	(20,142)	742,217
Equipment	712,970	100,508	(62,498)	750,980
Infrastructure	17,002,114	730,218	(70,460)	17,661,872
Total Accumulated Depreciation.....	18,470,877	889,015	(153,156)	19,206,736
Total Capital Assets being Depreciated, Net	21,361,889	(13,455)	(17,254)	21,331,180
Governmental Activities Capital Assets, Net.....	<u>\$ 27,061,983</u>	<u>\$ 1,135,317</u>	<u>\$ (881,648)</u>	<u>\$ 27,315,652</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Construction in Progress	\$ 4,576	\$ 2,528	\$ (2,639)	\$ 4,465
Land.....	15,374	760	---	16,134
Total Capital Assets not being Depreciated	19,950	3,288	(2,639)	20,599
Capital Assets being Depreciated:				
Land Improvements.....	7,031	37	---	7,068
Buildings and Improvements	26,757	---	---	26,757
Equipment	44,114	4,110	(2,344)	45,880
Total Capital Assets being Depreciated	77,902	4,147	(2,344)	79,705
Less Accumulated Depreciation for:				
Land Improvements.....	2,781	120	---	2,901
Buildings and Improvements	9,050	696	---	9,746
Equipment	32,835	3,440	(2,244)	34,031
Total Accumulated Depreciation.....	44,666	4,256	(2,244)	46,678
Total Capital Assets being Depreciated, Net	33,236	(109)	(100)	33,027
Business-Type Activities Capital Assets, Net.....	<u>\$ 53,186</u>	<u>\$ 3,179</u>	<u>\$ (2,739)</u>	<u>\$ 53,626</u>

* Beginning balances as of July 1, 2003 have been restated (see *Note 17*).

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 5 – Capital Assets (cont.)

Depreciation expense of governmental activities was charged to functions as follows (in thousands of dollars):

General Government.....	\$ 16,814
Education	3,976
Natural and Economic Resources.....	24,184
Transportation and Law Enforcement	789,158
Human Services	<u>54,883</u>
Total	<u>\$ 889,015</u>

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands of dollars):

	College and Universities	Non-Major Component Units	Total
Capital Assets not being Depreciated:			
Construction in Progress.....	\$ 259,827	\$ 5,181	\$ 265,008
Land	117,399	8,067	125,466
Other Non-Depreciable Assets.....	<u>250,765</u>	<u>---</u>	<u>250,765</u>
Total Capital Assets not being Depreciated	<u>627,991</u>	<u>13,248</u>	<u>641,239</u>
Capital Assets being Depreciated:			
Land Improvements	16,067	---	16,067
Buildings and Improvements.....	2,923,489	26,642	2,950,131
Equipment, Fixtures, and Books.....	711,708	48	711,756
Infrastructure.....	<u>255,934</u>	<u>---</u>	<u>255,934</u>
Total Capital Assets being Depreciated	<u>3,907,198</u>	<u>26,690</u>	<u>3,933,888</u>
Less Total Accumulated Depreciation	<u>(1,642,022)</u>	<u>(1,803)</u>	<u>(1,643,825)</u>
Total Capital Assets being Depreciated, Net	<u>2,265,176</u>	<u>24,887</u>	<u>2,290,063</u>
Discretely Presented Component Units –			
Capital Assets, Net.....	<u>\$ 2,893,167</u>	<u>\$ 38,135</u>	<u>\$ 2,931,302</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 6 – Leases

Capital

The State has entered into various agreements to lease land, buildings and equipment. FASB Statement No. 13, *Accounting For Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a capital asset and the incurrence of an obligation by the lessee (a capital lease).

Capital leases for the enterprise, internal service, and college and university funds are reported as a long-term obligation in those funds along with the related assets. Capital leases and the related assets are not reported on the fund financial statements of governmental type funds. However, the capital leases and related assets of governmental funds are included on the government-wide financial statements and they are shown on the reconciliation between fund financial statements and government-wide statements.

Following is a summary of the future minimum lease payments for capital leases (in thousands of dollars):

<u>Fiscal Year Ending June 30</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>College and University</u>
2005	\$ 28,561	\$ 184	\$ 1,607	\$ 3,181
2006	28,153	184	1,077	1,739
2007	21,013	184	338	1,424
2008	20,177	184	118	1,296
2009	19,656	184	118	1,215
2010–2014	94,402	919	591	6,075
2015–2019	58,746	552	118	6,075
2020–2024	---	---	---	304
Total minimum lease payments	<u>270,708</u>	<u>2,391</u>	<u>3,967</u>	<u>21,309</u>
Less amount representing interest	<u>77,170</u>	<u>1,056</u>	<u>317</u>	<u>8,143</u>
Present value of net minimum lease payments	<u>\$ 193,538</u>	<u>\$ 1,335</u>	<u>\$ 3,650</u>	<u>\$ 13,166</u>

Assets acquired through these capital lease agreements are recorded as capital assets at the lower of the present value of the minimum lease payments or the fair value at the time of acquisition. The following is an analysis of the property under capital lease by asset category as of June 30, 2004 (in thousands of dollars):

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>College and University</u>
Land	\$ ---	\$ ---	\$ ---	\$ 152
Buildings	215,653	1,413	1,318	14,790
Equipment	<u>42,879</u>	<u>---</u>	<u>8,560</u>	<u>3,969</u>
Total Capital Assets	<u>\$ 258,532</u>	<u>\$ 1,413</u>	<u>\$ 9,878</u>	<u>\$ 18,911</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 6 – Leases (cont.)

Operating

The State has entered into various operating leases for land, buildings, and equipment. Most of these leases are classified as operating because the lease period is one year with multiple renewal options. Future minimum commitments due under operating leases as of June 30, 2004, were as follows (in thousands of dollars):

<u>Year Ending June 30</u>	<u>Primary Government</u>	<u>Component Units</u>
2005	\$ 33,841	\$ 2,388
2006	27,030	1,242
2007	20,115	611
2008	15,195	427
2009	10,040	379
2010–2014	20,850	692
2015–2019	675	487
2020–2024	524	---
After 2024	<u>102</u>	<u>---</u>
Total Minimum Commitments	<u>\$ 128,372</u>	<u>\$ 6,226</u>

Expenditures for rent under operating leases for the years ended June 30, 2004 and June 30, 2003 were \$33,788,000 and \$33,509,000, respectively.

Rental Revenue

The State leases certain state owned facilities to entities outside the State. These lessor arrangements are generally long-term commitments which either generate revenue from otherwise idle property or better serve Missouri's citizens by providing convenient access to products and services. Future minimum receivables, payable from lessor arrangements as of June 30, 2004, were as follows (in thousands of dollars):

<u>Year Ending June 30</u>	<u>Primary Government</u>	<u>Component Units</u>
2005	\$ 330	\$ 1,190
2006	312	658
2007	296	618
2008	230	604
2009	225	604
2010–2014	1,102	2,900
2015–2019	1,097	2,896
2020–2024	1,097	2,798
After 2024	<u>59</u>	<u>13,097</u>
Total Minimum Receivables	<u>\$ 4,748</u>	<u>\$ 25,365</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 7 – Retirement Systems

The State has two major retirement systems which cover substantially all state employees. These systems are Missouri State Employees' Retirement System (MOSERS) and Highway and Transportation Employees' and Highway Patrol Retirement System (HEHPRS). The University of Missouri's Retirement Plan is included as the University is a component unit of the State. The Public School Retirement System is included in this note disclosure as the State contributes to it. The Missouri State Employees' Deferred Compensation Incentive Plan is a defined contribution pension plan, to which the State also contributes.

Plan Descriptions

The Missouri State Employees' Plan (MSEP), Administrative Law Judges and Legal Advisors Plan (ALJLAP) and the Judicial Plan are single-employer defined benefit public employees' retirement plans administered by MOSERS. The Plans are administered in accordance with the Revised Statutes of Missouri Sections 104.010 and 104.312-104.1215, 287.812-287.856 and 476.445-476.690, respectively.

The MSEP has two benefit structures known as MSEP (closed plan) and MSEP 2000 (new plan). The MSEP covers all full-time employees hired before July 1, 2000, who are not covered under another state-sponsored retirement plan. MSEP 2000 covers all full-time employees hired on or after July 1, 2000. Members in the closed plan have the option at retirement to choose between the benefit structure of the closed plan or new plan. Retirement benefits for members of the ALJLAP and Judicial Plan are administered and paid by MOSERS.

MOSERS provides retirement, death, and disability benefits to its members. MOSERS employees are fully vested after 5 years of creditable service (4 years for elected officials and 6 years for legislators). The retirement eligibility requirements are as follows:

MSEP

Age 65 and active with 4 years of service
Age 65 with 5 years of service
Age 60 with 15 years of service
Age 48 with age and service equaling 80
or more (Rule of 80)
Employees may retire early at age 55 with at
least 10 years of service with reduced benefits.

ALJLAP

Age 62 with 12 years of service
Age 60 with 15 years of service
Age 55 with 20 years of service
Employees may retire early at age 65 with less
than 12 years of service with a reduced
benefit that is based upon years of
service relative to 12 years.

MSEP 2000

Age 62 with 5 years of service
Age 48 with age and service equaling 80
or more (Rule of 80)
Employees may retire early at age 57 with at
least 5 years of service with reduced benefits.

Judicial Plan

Age 62 with 12 years of service
Age 60 with 15 years of service
Age 55 with 20 years of service
Employees may retire early at age 62 with less
than 12 years of service or age 60 with less
than 15 years of service with reduced benefit
that is based upon years of service relative to
12 or 15 years.

For members hired prior to August 28, 1997, cost of living adjustments (COLA's) are provided annually based on 80% of the change in the Consumer Price Index (CPI) with a floor of 4% and a ceiling of 5%, until the cumulative amount of COLA's equal 65% of the original benefit, thereafter the 4% floor is eliminated. For members hired on or after August 28, 1997, COLA's are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%. Qualified, terminated-vested members of MSEP, ALJLAP, and Judicial Plan may make a one-time election to receive the present value of benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than \$10,000.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 7 – Retirement Systems (cont.)

The Highway and Transportation Employees' and Highway Patrol Retirement System (HEHPRS) is a single-employer defined benefit public employees' retirement system administered in accordance with the Revised Statutes of Missouri Sections 104.010-104.270.

HEHPRS membership is composed of qualified employees of the Missouri Highways and Transportation Commission (includes employees of the Department of Transportation), and uniformed and non-uniformed members of the State Highway Patrol.

HEHPRS provides retirement, death and disability benefits to its members. HEHPRS employees are fully vested after 5 years of creditable service. Employees may retire at age 65 with 4 years of service; age 60 with 15 years of service; age 55 with 4 years of service (uniformed members only); or age 48 with age and service equaling 80 or more. Employees may retire between the ages of 55 and 59 and receive a reduced benefit if they have at least 10 years and less than 30 years of service. For members hired prior to August 28, 1997, cost of living adjustments (COLA's) are provided annually based on 80% of the change in the Consumer Price Index (CPI) with a floor of 4% and a ceiling of 5%, until the cumulative amount of COLA's equal 65% of the original benefit, thereafter the 4% floor is eliminated. For members hired on or after August 28, 1997, COLA's are provided annually based on 80% of the CPI. Effective August 28, 2003, uniformed patrol members who previously were employed by a non-federal public entity will be allowed to purchase creditable service time of up to 4 years maximum.

Copies of financial reports issued by MOSERS and HEHPRS can be requested from:

Missouri State Employees' Retirement System
P.O. Box 209
907 Wildwood
Jefferson City, Missouri 65102-0209

Missouri Highway and Transportation Employees'
and Highway Patrol Retirement System
P.O. Box 1930
Jefferson City, Missouri 65102-1930

Funding Requirement

MOSERS administers plans which cover substantially all State of Missouri employees. The State of Missouri is obligated by state law to make all required contributions to the System. The actuarially determined contributions are expressed as a level percentage of covered payroll. Current year actuarially determined contribution rates for the MSEP, ALJLAP and the Judicial Plan are 9.35%, 20.12% and 51.68%, respectively. Actual contribution rates are the same as the actuarially determined rates.

The State of Missouri makes all required contributions to HEHPRS. Current year calculated contribution rates are 38.40% for uniformed members of the Highway Patrol and 25.54% for non-uniformed members of the Highway Patrol and employees of the Department of Transportation. Actual contribution rates are the same as the actuarially determined rates.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 7 – Retirement Systems (cont.)

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation for the current year were as follows (in thousands of dollars):

	<u>MSEP</u>	<u>ALJLAP</u>	<u>Judicial Plan</u>	<u>HEHPRS</u>
Annual required contribution	\$ 164,692	\$ 946	\$ 20,636	\$ 86,725
Interest on net pension obligation	4,850	8	3,346	---
Actuarial adjustment to annual required contribution	(3,371)	(5)	(2,326)	---
Annual pension cost	166,171	949	21,656	86,725
Contributions made	(164,692)	(946)	(20,636)	(86,725)
Increase in net pension obligation	1,479	3	1,020	---
Net pension obligation, beginning of year	57,059	94	39,363	---
Net pension obligation, end of year	<u>\$ 58,538</u>	<u>\$ 97</u>	<u>\$ 40,383</u>	<u>\$ ---</u>

The annual required contribution for MOSERS for the current year was determined as part of an actuarial valuation of the Systems as of June 30, 2002, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation for MOSERS include (a) rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 4.0% per year annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 2.7% per year for MSEP and 0% to 1.6% for ALJLAP and Judicial Plan, depending on age, attributable to seniority and/or merit and (d) the assumption that benefits will increase 4.0% per year after retirement.

The actuarial valuation of the System dated June 30, 2004, will set the required contribution rates for the fiscal year ending June 30, 2006. The actuarial value of assets was determined using a 5-year valuation method which fully recognizes expected investment return and averages unanticipated market return. The unfunded actuarial accrued liabilities are amortized on a closed basis as a level percentage of payroll over 32 years.

The annual required contribution for HEHPRS for the current year was determined as part of an actuarial valuation as of June 30, 2003, using the normal entry age actuarial cost method. Significant actuarial assumptions used in the valuation for HEHPRS include (a) rate of return on the investment of 8.25% and (b) projected wage inflation rate of 4.0%.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 7 – Retirement Systems (cont.)

As of June 30, 2004, the actuarial valuation of assets was determined using a 3-year smoothed market average. The unfunded actuarial accrued liabilities are amortized as closed, level percentage over 32 years.

Trend Information (in thousands of dollars)

	MSEP			ALJLAP		
	Fiscal Year Ending			Fiscal Year Ending		
	06/30/04	06/30/03	06/30/02	06/30/04	06/30/03	06/30/02
Annual Pension Cost (APC)	\$ 166,171	\$ 157,997	\$ 210,897	\$ 949	\$ 953	\$ 1,075
Percentage of APC Contributed	99.11%	99.10%	99.34%	99.68%	99.79%	99.77%
Net Pension Obligation	\$ 58,538	\$ 57,059	\$ 55,638	\$ 97	\$ 94	\$ 93

	Judicial Plan			HEHPRS		
	Fiscal Year Ending			Fiscal Year Ending		
	06/30/04	06/30/03	06/30/02	06/30/04	06/30/03	06/30/02
Annual Pension Cost (APC)	\$ 21,656	\$ 21,748	\$ 23,121	\$ 86,725	\$ 82,039	\$ 77,440
Percentage of APC Contributed	95.29%	95.65%	95.53%	100%	100%	100%
Net Pension Obligation	\$ 40,383	\$ 39,363	\$ 38,417	\$ ---	\$ ---	\$ ---

Public School Retirement System of Missouri:

The State of Missouri also made employer contributions to the Public School Retirement System of Missouri which is a cost-sharing multiple-employer defined benefit public employees' retirement system. The System includes all public school districts within the State except for the two districts covering the major metropolitan areas. It also includes certain public colleges and universities and some state employees.

The benefit provisions include retirement annuities, death benefits and disability benefits. A member is vested after acquiring five years of membership credit for Missouri service.

The System was created and is governed by Chapter 169 of the Revised Statutes of Missouri. State employees who elect to remain with the Public School Retirement System under the Revised Statutes of Missouri, Section 104.342, are covered by the System.

Employees of the State are not required to contribute. The State, as employer, contributed \$2,752,000, \$2,951,000, and \$3,057,000 for the years ending June 30, 2004, 2003 and 2002, respectively, to the System, equal to the required contributions for each year.

**STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004**

Note 7 – Retirement Systems (cont.)

Copies of the System's June 30, 2004, Comprehensive Annual Financial Report can be requested from:

Public School Retirement System of Missouri
P.O. Box 268
3210 West Truman Boulevard
Jefferson City, Missouri 65109

Missouri State Employees' Deferred Compensation Incentive Plan:

The Plan was established by the Missouri State Public Employees' Deferred Compensation Commission in July 1995 pursuant to Section 401(a) of the Internal Revenue Code. It is administered by the Public Employees Benefit Services Corporation (PEBSCO).

Under the Plan provisions, any employee of the State is eligible to participate in the Plan if he/she has been an employee of the State for at least 12 consecutive months immediately preceding any employer contributions to the Plan, and is making continuous monthly deferrals of at least \$25 to the Missouri State Public Employees' Deferred Compensation Plan. The State, subject to appropriation, contributes \$25 per month for each employee that meets these requirements. Participating employees are 100% vested.

The first employer contributions to the Plan were made in January 1996. During fiscal year 2004, employer contributions were \$11,214,000. No employee contributions are made to the Plan.

Copies of the Plan's financial statements can be requested from:

PEBSCO – A Division of Nationwide
Retirement Solutions, Inc.
One Nationwide Plaza, 1-13-G1
Columbus, Ohio 43215-2220

College and University:

University of Missouri Retirement System

Plan Description

The University of Missouri Retirement, Disability and Death Benefit Plan is a single employer, defined benefit plan for all qualified employees. The University's Board of Curators establishes the terms of the Plan and administers it as authorized by state statute.

All full-time employees are eligible for benefits after five years of credited service. Full benefits are available to members who retire at age 65 or after. Early retirement may be taken, at member's option, after age 55 with at least ten years of credited service, or age 60 with five years of credited service. Benefits are reduced for those who retire early, unless they retire at age 62 or later with at least 25 years of credited service. At retirement, up to 30% of the value of the retirement annuity can be taken in a lump sum; also the single life annuity can be exchanged for an actuarially equivalent annuity option.

Separate financial statements and supplemental schedules are not prepared for the Plan.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 7 – Retirement Systems (cont.)

Detailed information concerning the Plan is presented in the University's 2004 financial report, which is publicly available. Copies of this report can be requested from:

University of Missouri System
Office of the Controller
118 University Hall
Columbia, Missouri 65211

Funding Requirement

The University's contributions to the Plan are equal to the actuarially determined contribution requirement, as a percent of payroll, which averaged 6.7% for the year ended June 30, 2004. The Plan is funded 100% by University contributions and does not require employee contributions. The contribution rate is updated annually at the beginning of the University's fiscal year on July 1 to reflect the actuarially determined funding requirement from the most recent valuation, as of the preceding October 1, and the adoption of any Plan amendments during the interim.

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation for the current year were as follows (in thousands of dollars):

Annual required contribution	\$ 48,521
Interest on net pension obligation	---
Adjustment to annual required contribution	---
Annual pension cost	<u>48,521</u>
Contributions made	<u>(48,521)</u>
Change in net pension obligation	---
Net pension obligation, beginning of year	<u>---</u>
Net pension obligation, end of year	<u><u>\$ ---</u></u>

The annual required contribution for the University for the current year was determined as part of an actuarial valuation of the System as of October 1, 2002, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include (a) assumed rate of return on investments of 8.0% per year, (b) projected salary increases for academic and administrative employees averaging 5.2% per year, (c) projected salary increases for clerical and service employees averaging 4.5% per year, and (d) assumed no future retiree ad-hoc increases or cost of living adjustments.

Trend Information (in thousands of dollars)

	<u>Fiscal Year Ending</u>		
	<u>06/30/04</u>	<u>06/30/03</u>	<u>06/30/02</u>
Annual Pension Cost (APC)	\$ 48,521	\$ 17,962	\$ 25,319
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ ---	\$ ---	\$ ---

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 8 – Other Postemployment Benefits

In addition to the retirement benefits described in *Note 7*, the State provides postemployment health care and life insurance benefits, in accordance with state statutes, to the majority of employees who either retire from the State or receive long-term disability benefits. These benefits are administered by the Missouri Consolidated Health Care Plan (MCHCP), the Missouri State Employees' Retirement System (MOSERS), the Highway and Transportation Employees' and Highway Patrol Insurance Plan (HEHPIP), and the Conservation Employees' Insurance Plan (CEIP). The eligible number of retirees/long-term disability claimants for MCHCP, HEHPIP, and CEIP for health care benefits are approximately 11,402, 3,943, and 518, respectively. The eligible number of retirees/long-term disability claimants for MOSERS, HEHPIP, and CEIP for life insurance benefits are 13,825, 3,132, and 353, respectively. Health care benefits are funded through both employer and employee contributions. MOSERS life insurance benefits are funded through employer and employee contributions. HEHPIP and CEIP life insurance benefits are funded through employee contributions. Employer contribution rates are set in accordance with Section 103.100 of the Revised Statutes of Missouri. Retiree contribution rates are established based on projected claims experience and funding provided by employer contributions. Insurance policies are purchased for life insurance benefits and are the liability of the insurance carrier. For fiscal year 2004 the State's contributions were 49.56% of the total (employer/employee) contributions made for other postemployment benefits.

Currently, the number of retirees/long-term disability claimants participating in each plan is as follows:

	<u>Health Care</u>	<u>Life Insurance</u>
MCHCP	11,402	---
MOSERS	---	13,825
HEHPIP	3,943	3,132
CEIP	518	353
	<u>15,863</u>	<u>17,310</u>
Total	<u>15,863</u>	<u>17,310</u>

During fiscal year 2004 the State contributed the following amounts:

	<u>Health Care</u>	<u>Life Insurance</u>
MCHCP	\$ 34,829,913	\$ ---
MOSERS	---	1,667,842
HEHPIP	10,584,518	---
CEIP	1,650,612	---
	<u>\$ 47,065,043</u>	<u>\$ 1,667,842</u>
Total	<u>\$ 47,065,043</u>	<u>\$ 1,667,842</u>

During fiscal year 2004 the expenditures recognized by the State for (employer/employee) other postemployment benefits were as follows:

	<u>Health Care</u>	<u>Life Insurance</u>
MCHCP	\$ 69,720,735	\$ ---
MOSERS	---	---
HEHPIP	24,672,422	1,445,500
CEIP	2,900,340	268,884
	<u>\$ 97,293,497</u>	<u>\$ 1,714,384</u>
Total	<u>\$ 97,293,497</u>	<u>\$ 1,714,384</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 8 – Other Postemployment Benefits (cont.)

College and University Funds:

University of Missouri System

In addition to the retirement benefits described in *Note 7*, the University provides postemployment medical care, dental care, and life insurance benefits to eligible employees who retire from the University and to employees receiving long-term disability benefits. Currently, 5,475 retirees/long-term disability claimants meet the eligibility requirements. These postemployment benefits are funded through both employer and employee contributions. For fiscal year 2004 the University's contributions were 55.85% of the total (employer/employee) contributions made for other postemployment benefits.

Currently, the numbers of retirees/long-term disability claimants participating are 4,911 for medical care, 4,428 for dental care, 2,750 for life insurance, and 3,952 for accidental death and dismemberment, dependent life and long-term care insurance. During fiscal year 2004, the University contributed \$16,647,000 for other postemployment benefits. The expenditures recognized by the University for (employer/employee) other postemployment benefits were \$29,133,000.

Note 9 – Missouri State Public Employees' Deferred Compensation Plan

In accordance with Internal Revenue Code Section 457, the State offers all employees the opportunity to participate in the Missouri State Public Employees' Deferred Compensation Plan. Under the Plan, employees are permitted to defer a portion of their current salary until future years.

All amounts of compensation deferred under the Plan must be held in a trust, custodial account or annuity contract for the exclusive benefit of Plan participants and their beneficiaries. Investments are managed by the Plan's trustee under one of several investment options, or a combination thereof. The choice between the investment option(s) available by the Plan is made by the participants.

Copies of the Plan's financial statements can be requested from:

PEBSCO – A Division of Nationwide
Retirement Solutions, Inc.
One Nationwide Plaza, 1-13-G1
Columbus, Ohio 43215-2220

Note 10 – Changes in Short-Term Liabilities

The State uses a bank overdraft line of credit to compensate for timing in cash payments and receipts. Budget reserve loans are also issued to the General Revenue Fund and other funds to maintain adequate cash balances for anticipated payments.

The following is a summary of the changes in short-term liabilities for the year ended June 30, 2004 (in thousands of dollars):

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental Activities:				
Bank Overdraft	\$ 3	\$ 525,209	\$ (525,209)	\$ 3
Budget Reserve Loans	---	298,368	(298,368)	---
Total Governmental Activities	<u>\$ 3</u>	<u>\$ 823,577</u>	<u>\$ (823,577)</u>	<u>\$ 3</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 11 – Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2004 (in thousands of dollars):

	*Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
Due to Other Entities	\$ 34,221	\$ 892	\$ (2,885)	\$ 32,228	\$ 699
General Obligation Bonds					
Payable	900,745	150,305	(195,935)	855,115	55,560
Other Bonds Payable	1,410,955	370,030	(152,475)	1,628,510	51,510
Unamortized Bond					
Premium	80,145	28,227	(10,510)	97,862	---
Obligations Under Lease/ Purchases	212,470	7,609	(22,891)	197,188	19,779
Compensated Absences	154,742	136,892	(137,681)	153,953	137,681
Claims/Judgments	111,784	139,301	(35,484)	215,601	35,484
2 nd Injury Fund					
Claims/Judgments	201,128	605,454	(56,982)	749,600	56,982
Net Pension Obligation	96,516	275,501	(272,999)	99,018	---
Total Governmental Activities	<u>\$ 3,202,706</u>	<u>\$ 1,714,211</u>	<u>\$ (887,842)</u>	<u>\$ 4,029,075</u>	<u>\$ 357,695</u>
Business-Type Activities:					
Claims Liability	\$ 119,990	\$ 7,418	\$ (13,742)	\$ 113,666	\$ 22,000
Grand Prize Winner					
Liability	105,965	38,500	(37,240)	107,225	41,752
Obligations Under Lease/ Purchases	1,383	---	(48)	1,335	53
Compensated Absences	1,960	3,801	(3,413)	2,348	2,348
Total Business-Type Activities	<u>\$ 229,298</u>	<u>\$ 49,719</u>	<u>\$ (54,443)</u>	<u>\$ 224,574</u>	<u>\$ 66,153</u>

* Beginning balances as of July 1, 2003 have been restated (see *Note 17*).

Note 12 – Bonds Payable

Bonds are long-term liabilities and are reconciling items from fund financial statements to government-wide financial statements. These bonds are included as long-term liabilities because the principal and interest payments required for retirement of the bonds are made from governmental funds. On the Government-Wide Statement of Net Assets, the long-term liabilities are shown as the amounts due within one year from the date of the statement and the amounts due in more than one year from the date of the statement.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

General Obligation Bonds:

The Board of Fund Commissioner's of the State of Missouri, upon voter approval and subsequent authorization of the General Assembly, issues general obligation bonds that are secured by a pledge of the full faith, credit and resources of the State. The principal and interest amounts are transferred one year in advance from the General Fund to the debt service funds from which principal and interest payments are made. Four types of general obligation bonds are currently outstanding. Proceeds from the Water Pollution Control Bonds were used to provide funds for the protection of the environment through the control of water pollution. Proceeds from the \$600,000,000 Third State Building Bonds were used to provide funds for improvements of state buildings and property. Proceeds from the \$250,000,000 Fourth State Building Bonds were used to provide funds for improvements of buildings and property of higher education institutions, Department of Corrections, and the Division of Youth Services. Proceeds from the Stormwater Control Bonds were used to provide funds to protect the environment through the control of stormwater.

To take advantage of lower interest rates, the Board of Fund Commissioners has issued bonds to refund various outstanding bond issues. The following indicates the refunding bonds issued by the Board (in thousands of dollars):

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Series Refunded</u>	<u>Amount Refunded</u>
Water Pollution Control Bonds:				
Series A 1987 Refunding	8/1/87	\$ 49,715	A 1981	\$ 16,940
			B 1983	9,625
			A 1985	19,575
Series B 1991 Refunding	11/1/91	17,435	A 1983	16,415
Series C 1991 Refunding	11/1/91	33,575	B 1987	30,695
Series B 1992 Refunding	8/15/92	50,435	A 1986	46,400
Series B 1993 Refunding	8/1/93	109,415	A 1987 Refunding	33,240
			A 1989	27,280
			A 1991	27,350
			B 1991 Refunding	11,355
Series B 2002 Refunding	10/15/02	147,710	C 1991 Refunding	21,875
			A 1992	26,560
			B 1992 Refunding	33,595
			A 1993	22,350
			A 1995	22,520
			A 1996	25,900
Series A 2003 Refunding	10/29/03	74,655	B 1993 Refunding	76,540
Third State Building Bonds:				
Series A 1987 Refunding	8/1/87	170,115	B 1983	33,675
			A 1984	48,130
			A 1985	73,375
Series A 1991 Refunding	11/1/91	34,870	A 1983	32,835
Series B 1991 Refunding	11/1/91	71,955	B 1987	65,780
Series A 1992 Refunding	8/15/92	273,205	A 1986	251,355
Series A 1993 Refunding	8/1/93	148,480	A 1987 Refunding	113,725
			A 1991 Refunding	22,935
Series A 2002 Refunding	10/15/02	211,630	B 1991 Refunding	47,320
			A 1992 Refunding	181,170
Series A 2003 Refunding	10/29/03	75,650	A 1993 Refunding	79,380
Fourth State Building Bonds:				
Series A 2002 Refunding	10/15/02	154,840	A 1995	56,300
			A 1996	92,485

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

The additional principal amount of the refunding bonds does not decrease the amount of the authorization.

As of June 30, 2004, \$544,494,240 of the Water Pollution Control Bonds; \$600,000,000 of the Third State Building Bonds; \$250,000,000 of the Fourth State Building Bonds; and \$45,000,000 of the Stormwater Control Bonds have been issued. The remaining authorization for the Water Pollution Control Bonds is \$180,505,760 and for Stormwater Control Bonds is \$155,000,000. There is no remaining authorization for the Third State Building Bonds or the Fourth State Buildings Bonds.

General obligation bonds issued and outstanding as of June 30, 2004, were as follows (in thousands of dollars):

	Interest Rates	Payment Dates	Issue Date	Final Maturity Date	Issued	Outstanding
Water Pollution Control Bonds:						
Series A 1995	5.125 – 8.0%	4/1; 10/1	4/95	4/1/05	\$ 30,000	\$ 950
Series A 1996	5.2 – 6.25%	2/1; 8/1	8/96	8/1/06	35,000	3,165
Series A 1998	4.25 – 6.25%	12/1; 6/1	6/98	6/1/23	35,000	29,690
Series A 1999	4.5 – 7.5%	10/1; 4/1	10/99	10/1/24	20,000	18,115
Series A 2001	4.0 – 7.0%	12/1; 6/1	6/01	6/1/26	20,000	18,545
Series A 2002	3.0 – 5.25%	2/1; 8/1	8/02	8/1/27	30,000	29,305
Series B 2002 – Refunding	3.375 – 5.0%	4/1; 10/1	10/02	10/1/21	147,710	147,710
Series A 2003 – Refunding	3.25 – 6.0%	2/1; 8/1	10/03	8/1/16	74,655	74,655
Third State Building Bonds:						
Series A 2002 – Refunding	4.0 – 5.0%	4/1; 10/1	10/02	10/1/12	211,630	204,355
Series A 2003 – Refunding	3.25 – 6.0%	2/1; 8/1	10/03	8/1/12	75,650	75,650
Fourth State Building Bonds:						
Series A 1995	5.125 – 8.0%	4/1; 10/1	4/95	4/1/20	75,000	2,370
Series A 1996	5.2 – 6.25%	2/1; 8/1	8/96	8/1/21	125,000	11,310
Series A 1998	4.25 – 6.25%	12/1; 6/1	6/98	6/1/23	50,000	42,415
Series A 2002 – Refunding	3.375 – 5.0%	4/1; 10/1	10/02	10/1/21	154,840	154,840
Stormwater Control Bonds:						
Series A 1999	4.5 – 7.5%	10/1; 4/1	10/99	10/1/24	20,000	18,115
Series A 2001	4.0 – 7.0%	12/1; 6/1	6/01	6/1/26	10,000	9,270
Series A 2002	3.0 – 5.25%	2/1; 8/1	8/02	8/1/27	15,000	14,655
Total General Obligation Bonds					<u>\$ 1,129,485</u>	<u>\$ 855,115</u>

As of June 30, 2004, general obligation debt service requirements for principal and interest in future years were as follows (in thousands of dollars):

Fiscal Year Ended June 30	Principal	Interest	Totals
2005	\$ 55,560	\$ 39,589	\$ 95,149
2006	67,475	36,547	104,022
2007	72,685	33,153	105,838
2008	79,205	29,628	108,833
2009	76,700	26,029	102,729
2010–2014	240,280	85,917	326,197
2015–2019	153,370	45,422	198,792
2020–2024	92,250	13,694	105,944
2025–2028	17,590	1,488	19,078
Totals	<u>\$ 855,115</u>	<u>\$ 311,467</u>	<u>\$ 1,166,582</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

Other Bonds:

The Board of Public Buildings of the State of Missouri, upon the approval of the General Assembly, issues revenue bonds for building projects and commits state agencies to lease space in these buildings. The General Assembly appropriates to the Board, on behalf of the state agencies, amounts sufficient to pay the principal and interest on the bonds, maintain certain required reserves and to pay the costs of operations. The total amount authorized for the Board equals \$825,000,000.

To take advantage of lower interest rates, the Board of Public Buildings has issued bonds to refund various outstanding bond issues. The following indicates the refunding bonds issued by the Board (in thousands of dollars):

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Series Refunded</u>	<u>Amount Refunded</u>
Board of Public Buildings:				
Series A 1983 Refunding	10/1/83	\$ 43,445	A 1981	\$ 43,445
Series A 1985 Refunding	12/1/85	150,560	1966	2,160
			1967	825
			A 1978	11,745
			A 1979	2,260
			A 1980	3,795
			A 1983 Refunding	39,875
			A 1984	89,900
Series A 1991 Refunding	12/1/91	148,500	A 1985 Refunding	107,700
			A 1988	19,165
			B 1988	2,550
			C 1988	2,145
Series B 2001 Refunding	10/1/01	83,465	A 1991 Refunding	86,810

The additional principal amount of the refunding bonds does not decrease the amount of the authorization.

As of June 30, 2004, the Board of Public Buildings Bonds had issued \$751,205,000 of the bond authorization. The remaining authorization is \$73,795,000.

The Board of Public Buildings Bonds issued and outstanding as of June 30, 2004, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Board of Public Buildings:						
Series A 2001	4.25 – 5.5%	5/1; 11/1	5/01	5/1/26	\$ 173,870	\$ 161,985
Series B 2001 – Refunding	3.5 – 5.5%	6/1; 12/1	10/01	12/1/12	83,465	67,070
Series A 2003	4.0 – 6.0%	4/15;10/15	4/03	10/15/28	387,425	387,425
Total Board of Public Buildings Bonds					<u>\$ 644,760</u>	<u>\$ 616,480</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

As of June 30, 2004, the debt service requirements for principal and interest in future years for the Board of Public Buildings Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 13,560	\$ 30,506	\$ 44,066
2006	14,130	29,891	44,021
2007	25,715	29,043	54,758
2008	26,535	27,764	54,299
2009	27,500	26,353	53,853
2010–2014	110,495	112,550	223,045
2015–2019	113,800	84,692	198,492
2020–2024	142,575	53,779	196,354
2025–2029	142,170	16,830	159,000
Totals	\$ 616,480	\$ 411,408	\$ 1,027,888

The Health and Educational Facilities Authority issued \$35,000,000 of Educational Facilities Revenue Bonds (University of Missouri–Columbia Arena Project), Series 2001, dated November 1, 2001. These bonds are limited obligations of the Authority and do not constitute a pledge of the full faith and credit of the State. However, under a financing agreement dated November 1, 2001, the Office of Administration will request that the Governor’s annual budget request to the General Assembly include the State’s financing amount for principal and interest each year. These bonds are included as long-term liabilities since they will be repaid with moneys from the General Fund.

The Educational Facilities Revenue Bonds issued and outstanding as of June 30, 2004 were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Educational Facilities Revenue Bonds:						
Series 2001	3.0 – 5.0%	5/1; 11/1	11/01	11/1/21	<u>\$ 35,000</u>	<u>\$ 35,000</u>

As of June 30, 2004, the debt service requirement of the State for principal and interest in future years for the Educational Facilities Revenue Bonds (based on the financing agreement between the State and the Authority) were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 1,335	\$ 1,534	\$ 2,869
2006	1,380	1,493	2,873
2007	1,430	1,450	2,880
2008	1,485	1,402	2,887
2009	1,545	1,349	2,894
2010–2014	8,805	5,576	14,381
2015–2019	11,005	3,339	14,344
2020–2022	8,015	586	8,601
Totals	\$ 35,000	\$ 16,729	\$ 51,729

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

The Regional Convention and Sports Complex Authority issued \$132,910,000 of Convention and Sports Facility Project Bonds, Series A 1991, dated August 15, 1991. On December 15, 1993, the Authority issued \$121,705,000 of Convention and Sports Facility Project Refunding Bonds, Series A 1993 for the purpose of refunding the callable portions of the outstanding bonds issued in August 1991 and to pay the costs of additions and enhancements to the project. The outstanding principal amount refunded was \$101,410,000. On July 30, 2003, the Authority issued \$116,030,000 of Convention and Sports Facility Project Refunding Bonds, Series A 2003 for the purpose of refunding Convention and Sports Facility Project Bonds, Series A 1991 and Series A 1993 Refunding Bonds and to pay the costs of additions and enhancements to the project. The outstanding principal amount refunded was \$2,845,000 for the Series A 1991 Bonds and \$113,170,000 for the Series A 1993 Refunding Bonds. These bonds are limited obligations of the Authority and do not constitute a pledge of the full faith and credit of the State. However, under a financing agreement dated August 1, 1991, the Office of Administration will request that the Governor's annual budget request to the General Assembly include the State's financing amount of \$10,000,000 for principal and interest and \$2,000,000 for maintenance each year. These bonds are included as long-term liabilities since they will be repaid with moneys from the General Fund.

The Convention and Sports Facility Project Bonds issued and outstanding as of June 30, 2004 were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Convention and Sports Facility Project Bonds:						
Series A 2003 – Refunding	1.42–5.375%	2/15; 8/15	7/03	8/15/21	<u>\$ 116,030</u>	<u>\$ 116,030</u>

As of June 30, 2004, the debt service requirement of the State for principal and interest in future years for the Convention and Sports Facility Project Bonds (based on the financing agreement between the State and the Authority) were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 4,115	\$ 5,885	\$ 10,000
2006	4,395	5,605	10,000
2007	4,565	5,435	10,000
2008	4,755	5,245	10,000
2009	4,985	5,015	10,000
2010–2014	28,830	16,170	45,000
2015–2019	37,125	7,875	45,000
2020–2022	<u>27,260</u>	<u>7,740</u>	<u>35,000</u>
Totals	<u>\$ 116,030</u>	<u>\$ 58,970</u>	<u>\$ 175,000</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

The Missouri Highways and Transportation Commission authorized by Section 226.133 of the State Highway Act, issues bonds for highway construction and repairs. Under the Missouri Constitution, the principal and interest of the State Road Bonds are payable solely from the revenues of the State Road Fund.

The total amount authorized for the Commission equals \$2,250,000,000. On December 1, 2000, the Commission issued \$250,000,000 principal amount of State Road Bonds, Series A 2000. In October 2001, the Commission issued \$200,000,000 principal amount of State Road Bonds, Series A 2001. State Road Bonds, Series A 2002, were issued by the Commission in June 2002 with principal amount of \$203,000,000. In November 2003, the Commission issued \$254,000,000 principal amount of State Road Bonds, Series A 2003. As of June 30, 2004, the Missouri Highways and Transportation Commission had used \$907,000,000 of the bond authorization.

The State Road Bonds issued and outstanding as of June 30, 2004, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Missouri Highways and Transportation Commission:						
State Road Bonds						
Series A 2000	4.30–5.625%	2/1; 8/1	12/00	2/1/20	\$ 250,000	\$ 225,965
Series A 2001	2.25–5.125%	2/1; 8/1	10/01	2/1/21	200,000	185,470
Series A 2002	3.00–5.25%	2/1; 8/1	6/02	2/1/22	203,000	195,565
Series A 2003	2.00–5.00%	2/1; 8/1	11/03	2/1/23	<u>254,000</u>	<u>254,000</u>
Total Missouri Highways and Transportation Commission					<u>\$ 907,000</u>	<u>\$ 861,000</u>

As of June 30, 2004 debt service requirements for principal and interest in future years for the Missouri Highways and Transportation Commission State Road Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 32,500	\$ 43,788	\$ 76,288
2006	35,440	40,537	75,977
2007	36,740	39,086	75,826
2008	38,005	37,519	75,524
2009	39,540	35,740	75,280
2010–2014	225,990	147,599	373,589
2015–2019	285,845	85,159	371,004
2020–2023	<u>166,940</u>	<u>16,379</u>	<u>183,319</u>
Totals	<u>\$ 861,000</u>	<u>\$ 445,807</u>	<u>\$ 1,306,807</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

Component Units' Long-Term Debt – The following bonds are included in the balance sheet of the College and University Funds and the Non-Major Component Units.

Major

College and University Funds:

The colleges and universities of the State issue revenue bonds for various projects on each respective campus. Bonds are payable, both principal and interest, only out of net income and revenues arising from operations of facilities funded by the bonds. As of June 30, 2004, debt service requirements for principal and interest for the colleges and universities were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 25,153	\$ 37,595	\$ 62,748
2006	28,452	36,588	65,040
2007	29,321	35,472	64,793
2008	28,520	34,293	62,813
2009	29,774	33,073	62,847
2010-2014	153,975	145,310	299,285
2015-2019	161,839	108,967	270,806
2020-2024	188,175	71,425	259,600
2025-2029	167,405	31,898	199,303
2030-2034	94,975	5,295	100,270
Totals ⁽¹⁾	<u>\$ 907,589</u>	<u>\$ 539,916</u>	<u>\$ 1,447,505</u>

⁽¹⁾ The bond schedule does not include notes payable, therefore, it differs from the bonds and notes payable amount reported in the statements.

Non-Major

Development Finance Board:

On July 1, 2000, the Development Finance Board issued \$7,700,000 in Infrastructure Facilities Grant Anticipation Bonds, Series 2000A. The Series 2000A bonds are not an obligation of the Board and do not constitute a pledge of the full faith and credit of the State. In December 2000, the Board issued \$6,500,000 and \$14,600,000 in Facilities Revenue Bonds Series 2000B and 2000C, respectively for the purpose of paying the costs of acquiring and constructing a convention center hotel and hotel garage in St. Louis. Bonds are payable, both principal and interest, only out of revenues derived from the operation of the convention center.

The Development Finance Board Revenue Bonds issued and outstanding as of June 30, 2004, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Development Finance Board:						
Revenue Bonds						
Series 2000A	5.75%	8/1	7/00	8/1/04	\$ 7,700	\$ 7,700
Series 2000B	up to 8.5%	12/1	12/00	12/1/20	6,500	5,200
Series 2000C	up to 6.7%	12/1	12/00	12/1/20	14,600	12,900
Total Development Finance Board Revenue Bonds					<u>\$ 28,800</u>	<u>\$ 25,800</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

As of June 30, 2004, the debt service requirements for principal and interest in future years for the Development Finance Board Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 7,700	\$ 2,020	\$ 9,720
2006	---	1,794	1,794
2007	---	1,794	1,794
2008	---	1,768	1,768
2009	---	1,747	1,747
2010-2014	---	8,326	8,326
2015-2019	1,900	7,518	9,418
2020-2021	16,200	2,706	18,906
Totals	<u>\$ 25,800</u>	<u>\$ 27,673</u>	<u>\$ 53,473</u>

In December 2002, the Development Finance Board purchased a rate cap agreement of 8.5% for Series 2000B bonds and 6.7% for Series 2000C bonds with an expiration date of December 1, 2007. The Board has the option in the future to restructure the bond debt to acquire a fixed interest rate. The annual debt service schedule above uses an interest rate of 8.5% for the Series 2000B and Series 2000C bonds, which represents the maximum interest rate under the rate cap agreement.

Under a financing agreement dated July 1, 2000, the Missouri Highways and Transportation Commission will make payments to the Development Finance Board in the amount of \$7,700,000 to pay the principal on the Series 2000A bond. The future payments to the Corporation are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Commission Payments</u>
2005	<u>\$ 7,700</u>

Transportation Corporations:

The Fulton 54 Transportation Corporation issued \$8,705,000 of Highway Revenue Bonds Series 2000 dated September 1, 2000. These bonds are not an obligation of the Corporation and do not constitute a pledge of the full faith and credit of the State.

The Fulton 54 Transportation Corporation Highway Revenue Bonds issued and outstanding as of June 30, 2004, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Fulton 54 Transportation Corporation: Highway Revenue Bonds Series 2000	4.60-5.00%	9/1	9/00	9/1/07	<u>\$ 8,705</u>	<u>\$ 8,705</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

As of June 30, 2004, debt service requirements for principal and interest in future years for the Fulton 54 Transportation Corporation Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 2,165	\$ 363	\$ 2,528
2006	2,165	262	2,427
2007	2,180	158	2,338
2008	<u>2,195</u>	<u>51</u>	<u>2,246</u>
Totals	<u>\$ 8,705</u>	<u>\$ 834</u>	<u>\$ 9,539</u>

Under a financing agreement dated September 1, 2000, the Missouri Highways and Transportation Commission will make payments to the Fulton 54 Transportation Corporation in the amount of \$7,695,000 to pay a portion of the principal on the bonds. The future payments to the Corporation are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Commission Payments</u>
2005	\$ 2,165
2006	2,165
2007	2,165
2008	<u>1,200</u>
Total	<u>\$ 7,695</u>

The Missouri Highway 179 Transportation Corporation issued \$22,930,000 of Highway Revenue Bonds Series 1997 dated September 1, 1997. These bonds are not an obligation of the Corporation and do not constitute a pledge of the full faith and credit of the State.

The Missouri Highway 179 Transportation Corporation Highway Revenue Bonds issued and outstanding as of June 30, 2004, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Missouri Highway 179 Transportation Corporation: Highway Revenue Bonds Series 1997	3.95 – 5.25%	3/1; 9/1	9/97	9/1/08	<u>\$ 22,930</u>	<u>\$ 12,695</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

As of June 30, 2004, debt service requirements for principal and interest in future years for the Missouri Highway 179 Transportation Corporation Highway Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 2,315	\$ 563	\$ 2,878
2006	2,420	456	2,876
2007	2,530	344	2,874
2008	2,645	216	2,861
2009	<u>2,785</u>	<u>73</u>	<u>2,858</u>
Totals	<u>\$ 12,695</u>	<u>\$ 1,652</u>	<u>\$ 14,347</u>

Under a financing agreement dated August 1, 1997, the Missouri Highways and Transportation Commission will make payments to the Highway 179 Transportation Corporation in the amount of \$24,910,000 to pay a portion of the principal and interest on the bonds. The remaining payments are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Commission's Total Payments</u>
2005	\$ 1,782	\$ 658	\$ 2,440
2006	1,755	759	2,514
2007	1,709	880	2,589
2008	1,580	1,088	2,668
2009	<u>1,742</u>	<u>1,358</u>	<u>3,100</u>
Totals	<u>\$ 8,568</u>	<u>\$ 4,743</u>	<u>\$ 13,311</u>

On August 1, 1999, the Corporation issued \$17,240,000 of Transportation Revenue Bonds, Series 1999. These bonds are not an obligation of the Corporation and do not constitute a pledge of the full faith and credit of the State.

The Springfield, MO State Highway Improvement Corporation Transportation Revenue Bonds issued and outstanding as of June 30, 2004, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Springfield, MO State Highway Improvement Corporation: Transportation Revenue Bonds Series 1999	3.6 – 4.75%	2/1; 8/1	8/99	8/1/05	<u>\$ 17,240</u>	<u>\$ 8,470</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

As of June 30, 2004, debt service requirements for principal and interest in future years for the Springfield, MO State Highway Improvement Corporation Transportation Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 5,000	\$ 275	\$ 5,275
2006	<u>3,470</u>	<u>78</u>	<u>3,548</u>
Totals	<u>\$ 8,470</u>	<u>\$ 353</u>	<u>\$ 8,823</u>

Under an amended financing agreement dated August 5, 1999, the Missouri Highways and Transportation Commission will make payments to the Springfield, MO Highway Improvement Corporation in the amount of \$28,667,000 to pay a portion of the principal of the bonds. The remaining payments are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Commission Payments</u>
2005	\$ 5,000
2006	<u>3,667</u>
Total	<u>\$ 8,667</u>

The Wentzville Parkway Transportation Corporation issued \$12,935,000 of Transportation Revenue Bonds, Series 2001 dated May 1, 2001. These bonds are not an obligation of the Corporation and do not constitute a pledge of the full faith and credit of the State.

The Wentzville Parkway Transportation Corporation Transportation Revenue Bonds issued and outstanding as of June 30, 2004, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Wentzville Parkway Transportation Corporation: Transportation Revenue Bonds Series 2001	3.4 – 4.9%	2/1; 8/1	5/01	8/1/10	<u>\$ 12,935</u>	<u>\$ 12,510</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 12 – Bonds Payable (cont.)

As of June 30, 2004, debt service requirements for principal and interest in future years for the Wentzville Parkway Transportation Corporation Transportation Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 85	\$ 566	\$ 651
2006	100	562	662
2007	8,935	362	9,297
2008	485	152	637
2009	515	129	644
2010–2011	<u>2,390</u>	<u>149</u>	<u>2,539</u>
Totals	<u>\$ 12,510</u>	<u>\$ 1,920</u>	<u>\$ 14,430</u>

Under a funding agreement dated April 6, 2001, the Missouri Highways and Transportation Commission will make a fixed sum payment to the Wentzville Parkway Transportation Corporation in the amount of \$8,850,000 to pay a portion of the principal of the bonds. The future payments to the Corporation are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Commission Payments</u>
2005	\$ ---
2006	---
2007	<u>8,850</u>
Total	<u>\$ 8,850</u>

Bond Transactions of the State of Missouri – The following schedule is a summary of bond activity for the fiscal year ended June 30, 2004 (in thousands of dollars):

	<u>Governmental Funds</u>		<u>Component Units</u>	
	<u>General Obligation Bonds</u>	<u>Other Bonds</u>	<u>Revenue Bonds</u>	<u>Totals</u>
Bonds Payable at July 1, 2003	\$ 900,745	\$ 1,410,955	\$ ---	\$ 2,311,700
Bond Issuance	150,305	370,030	---	520,335
Bonds Retired	<u>(195,935)</u>	<u>(152,475)</u>	<u>---</u>	<u>(348,410)</u>
Subtotal	855,115	1,628,510		2,483,625
College and University ⁽¹⁾	---	---	907,589	907,589
Development Finance Board	---	---	25,800	25,800
Fulton 54 Transportation Corporation	---	---	8,705	8,705
Highway 179 Transportation Corporation	---	---	12,695	12,695
Springfield, MO State Highway Improvement	---	---	8,470	8,470
Wentzville Parkway Transportation Corporation	<u>---</u>	<u>---</u>	<u>12,510</u>	<u>12,510</u>
Bonds Payable at June 30, 2004	<u>\$ 855,115</u>	<u>\$ 1,628,510</u>	<u>\$ 975,769</u>	<u>\$ 3,459,394</u>

⁽¹⁾ Detailed information for College and University Funds are not shown.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 13 – Defeased Debt

A. Current Year Debt Defeasance

On October 29, 2003, the State of Missouri issued \$74,655,000 in Water Pollution Control General Obligation Refunding Bonds, Series A 2003, with interest rates ranging from 3.25% to 6.00% to refund \$76,540,000 of outstanding Water Pollution Control, Series B 1993–Refunding with interest rates ranging from 4.30% to 7.30%. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for the bonds have been removed from the financial statements. The State reduced its total debt service payments over the next 12 years by \$6,183,000 to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$5,320,000.

On October 29, 2003, the State of Missouri issued \$75,650,000 in Third State Building General Obligation Refunding Bonds, Series A 2003, with interest rates ranging from 3.25% to 6.00% to refund \$79,380,000 of outstanding Third State Building, Series A 1993–Refunding with interest rates ranging from 4.30% to 7.30%. The securities were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the financial statements. The State reduced its total debt service payments over the next 8 years by \$5,361,000 to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$4,936,000.

On July 30, 2003, the Regional Convention and Sports Complex Authority issued \$116,030,000 in Convention and Sports Facility Project Refunding Bonds, Series A 2003, with interest rates ranging from 1.42% to 5.38% to refund \$2,845,000 of Series A 1991 Convention and Sports Facility Project bonds with interest rates ranging from 4.90% to 6.90%, to refund \$113,170,000 of Series A 1993 Convention and Sports Facility Project Refunding Bonds with interest rates ranging from 2.75% to 5.60%, and to pay costs of additions and enhancements to the project. The securities were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the financial statements. The total debt service payments were reduced by \$4,892,000 over the next 18 years to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$3,343,000.

On November 13, 2003, the University of Missouri issued \$37,085,000 of System Facilities Revenue Bonds, Series 2003 B. The Series 2003 B Bonds refunded \$36,780,000 of System Facilities Revenue Bonds, Series 1993. The bonds are considered to be defeased and the liability for these bonds has been removed from the financial statements of the University. The refunding resulted in an aggregate decrease in debt service payments of \$5,288,000. The University's loss of \$1,143,000 in connection with the insubstance defeasance of Series 1993 Bonds is included as a reduction of debt outstanding and will be amortized over the remaining life of the original Series 1993 Bonds. The defeasance resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$3,525,000 for the System Facilities Revenue Bonds. At June 30, 2004, defeased bonds aggregating \$53,620,000 are outstanding.

On December 3, 2003, Missouri Western State College issued \$26,535,000 of Auxiliary System Refunding and Improvement Revenue Bonds, Series 2003 to refund \$6,600,000 of outstanding Series 1993 Bonds. The Series 2003 Bonds bear interest rates ranging from 1.10% to 5.00%. The Series 1993 Bonds had interest rates ranging from 2.35% to 5.40%. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. During fiscal year 2004, the Series 1993 bonds were called. As a result, the liability for the bonds has been removed from the financial statements. The college reduced its total debt service over the next 12 years by \$369,000 to obtain an economic gain (difference between the present values of the old debt and the new debt service payments) of \$27,000. As of June 30, 2004, there were no defeased bonds outstanding.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 13 – Defeased Debt (cont.)

B. Prior Year Debt Defeasances

In prior years, various bond issues were defeased by creating separate irrevocable trust funds.

Either new debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds or sufficient funds have been deposited in an irrevocable escrow to pay principal and interest as they become due.

For financial reporting purposes, the following debt has been defeased and therefore removed as a liability from the governmental activities and college and university funds Statement of Net Assets.

Governmental Activities – As of June 30, 2004, bonds outstanding of \$379,924,000 are defeased.

College and University Funds – As of June 30, 2004, bonds outstanding of \$89,881,000 are defeased.

Note 14 – Payables and Receivables

A summary of accounts payable and accounts receivable at June 30, 2004, is shown below (in thousands of dollars):

	Governmental Activities	Business-Type Activities	Balance June 30, 2004
Accounts Payable:			
Taxpayers	\$ 78,845	\$ 16	\$ 78,861
Other Governments	219,221	630	219,851
Vendors	802,077	302,141	1,104,218
Beneficiaries	5	41	46
Employees	103,798	1,695	105,493
Other	50,047	2	50,049
	<u>\$ 1,253,993</u>	<u>\$ 304,525</u>	<u>\$ 1,558,518</u>
Total Accounts Payable			
Accounts Receivable:			
Taxpayers	\$ 1,159,683	\$ 3,508	\$ 1,163,191
Other Governments	511,779	---	511,779
Vendors	847,481	---	847,481
Customers	548,614	149,403	698,017
Other	130,260	1,342	131,602
	<u>3,197,817</u>	<u>154,253</u>	<u>3,352,070</u>
Accounts Receivable			
Amounts not expected to be collected	<u>(1,072,407)</u>	<u>(16)</u>	<u>(1,072,423)</u>
Accounts Receivable, net	<u>\$ 2,125,410</u>	<u>\$ 154,237</u>	<u>\$ 2,279,647</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 15 – Interfund Assets and Liabilities

A summary of interfund assets and liabilities at June 30, 2004, is shown below (in thousands of dollars):

Due From/To Other Funds, Component Units, and Primary Government	Assets	Liabilities
General Fund	\$ 82	\$ 25,147
Public Education	18,218	232
Conservation and Environmental Protection	1,126	1,785
Transportation and Law Enforcement	12	2,038
State Road Fund	1,516	17,810
Non-Major Governmental Funds	171	1,903
State Lottery	---	18,376
Petroleum Storage Tank Insurance	---	22
Non-Major Enterprise Funds	154	573
Internal Service Funds	19,424	1,232
Fiduciary Funds	33,304	20,563
Non-Major Component Units	17,454	1,780
	<u>\$ 91,461</u>	<u>\$ 91,461</u>

Interfund assets and liabilities are recorded for payroll liabilities, group insurance, deferred compensation, retirement, and interfund sales and services. Interfund assets and liabilities are also recorded for transfers of money from the State Lottery Fund to public education funds, from fiduciary funds to the State Road Fund, from the non-major component units to conservation and environmental protection funds, and between the non-major component units and the State Road Fund.

Advances To/From Other Funds, Component Units, and Primary Government	Assets	Liabilities
General Fund	\$ ---	\$ 61,607
Conservation and Environmental Protection	3,590	---
State Road Fund	3,646	44,145
Fiduciary Funds	61,607	---
Non-Major Component Units	51,835	14,926
	<u>\$ 120,678</u>	<u>\$ 120,678</u>

Interfund advances, which are not expected to be repaid within one year, include \$44.1 million advance from the State Road Fund to the non-major component units, \$61.6 million advance from the General Fund to the Unclaimed Property Fund, \$3.6 million advance from the non-major component units to conservation and environmental protection type funds, \$7.7 million between the non-major component units, and \$3.6 million advance from the non-major component units to the State Road Fund.

The loans from the component units were for the construction of additional state highways. Loans from the Unclaimed Property Fund were to provide resources for cash flow requirements.

During the consolidation process for the Government-Wide Combined Statement of Net Assets, interfund payables and receivables were eliminated as follows: Business-type activities in the amount of \$3,000 and governmental activities in the amount of \$7,146,000.

Advances between non-major component units of \$7,690,000 have been eliminated on the Government-Wide Combined Statement of Net Assets.

**STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004**

Note 16 – Interfund Transfers

All transfers must be legally authorized by the legislature through transfer appropriations. Interfund transfers for the fiscal year ended June 30, 2004 are as follows (in thousands of dollars):

Transfers In:					
	General Fund	Public Education	Conservation and Environmental Protection	Transportation and Law Enforcement	State Road Fund
Transfers Out:					
General Fund	\$ ---	\$ 2,273,696	\$ 18	\$ 3,707	\$ 13
Public Education	3,016	---	---	---	---
Conservation and Environmental Protection	2,366	---	---	---	---
Transportation and Law Enforcement	561	---	---	---	169,010
Non-Major Governmental Funds	90,948	32,534	11,169	---	---
State Lottery	---	229,931	---	---	---
Petroleum Storage Tank	101	---	---	---	---
Non-Major Enterprise Funds	606	---	---	965	---
Internal Service Funds	4,793	---	---	---	---
Fiduciary Funds	39,134	---	---	---	---
Non-Major Component Units	1	---	---	---	---
Totals	\$ 141,526	\$ 2,536,161	\$ 11,187	\$ 4,672	\$ 169,023
Continues Below					
	Non-Major Governmental	Non-Major Enterprise	Fiduciary	Non-Major Component	Totals
Transfers Out:					
General Fund	\$ 98,874	\$ ---	\$ ---	\$ 35	\$ 2,376,343
Public Education	---	---	---	---	3,016
Conservation and Environmental Protection	1,487	---	---	---	3,853
Transportation and Law Enforcement	---	---	5,572	---	175,143
Non-Major Governmental Funds	22,969	12,600	---	---	170,220
State Lottery	---	---	---	---	229,931
Petroleum Storage Tank	---	---	---	---	101
Non-Major Enterprise Funds	---	---	---	---	1,571
Internal Service Funds	---	---	---	---	4,793
Fiduciary Funds	2,604	---	---	---	41,738
Non-Major Component Units	---	---	---	---	1
Totals	\$ 125,934	\$ 12,600	\$ 5,572	\$ 35	\$ 3,006,710

Principal reasons for interfund transfers include:

- moving general revenue funds to support elementary and secondary education
- moving State Lottery funds to support elementary and secondary education
- moving general revenue funds to support social assistance programs reported in non-major governmental funds
- moving funds related to the construction of capital assets.

During fiscal year 2004, certain funds were required to reimburse the central service agencies for overhead costs incurred on their behalf. The total amount reimbursed was \$11.2 million. Additional transfers of \$3.5 million from the internal service funds to the General Fund occurred for cash flow purposes and \$12.6 million from capital projects funds to Missouri Veterans' Homes, a non-major enterprise fund, occurred to pay for operations.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 17 – Restatements

During fiscal year 2004, additional information became available which required the restatement of fund equity amounts. The following table presents a summary of these restatements by fund categories (in thousands of dollars):

	June 30, 2003 Fund Balance/ Net Assets Previously Reported	Fund Reclassifications	Prior Period Adjustments	June 30, 2003 Fund Balance/ Net Assets Restated
GOVERNMENTAL FUNDS				
Major Governmental Funds				
General Fund	\$ 1,034,042	\$ ---	\$ (52,312)	\$ 981,730
Public Education	176,380	---	639	177,019
Conservation and Environmental Protection	855,983	---	1,359	857,342
Transportation and Law Enforcement	116,508	---	257	116,765
State Road Fund	308,986	---	---	308,986
Non-Major Governmental Funds				
Special Revenue	194,040	---	685	194,725
Debt Service	107,746	---	298	108,044
Capital Projects	332,679	---	979	333,658
Permanent	37,978	---	57	38,035
Total Governmental Funds	<u>\$ 3,164,342</u>	<u>\$ ---</u>	<u>\$ (48,038)</u>	<u>\$ 3,116,304</u>
PROPRIETARY FUNDS				
Major Enterprise Funds				
State Lottery	\$ 20,410	\$ ---	\$ ---	\$ 20,410
Unemployment Compensation	97,025	---	---	97,025
Petroleum Storage Tank Insurance	(75,052)	---	181	(74,871)
Non-Major Proprietary Funds				
Enterprise	38,383	---	15,188	53,571
Internal Service	395,281	---	(7,268)	388,013
Total Proprietary Funds	<u>\$ 476,047</u>	<u>\$ ---</u>	<u>\$ 8,101</u>	<u>\$ 484,148</u>
FIDUCIARY FUNDS				
Pension (and Other Employee Benefit) Trust	\$ 6,589,341	\$ 745,176 *	\$ ---	\$ 7,334,517
Private-Purpose Trust	747,286	(745,176) *	38	2,148
Total Fiduciary Funds	<u>\$ 7,336,627</u>	<u>\$ ---</u>	<u>\$ 38</u>	<u>\$ 7,336,665</u>
DISCRETELY PRESENTED COMPONENT UNITS				
Colleges and Universities	\$ 3,471,575	\$ ---	\$ (537)	\$ 3,471,038
Non-Major Funds	129,696	---	---	129,696
Total Component Units	<u>\$ 3,601,271</u>	<u>\$ ---</u>	<u>\$ (537)</u>	<u>\$ 3,600,734</u>

* The Missouri State Public Employees' Deferred Compensation (IRC 457) Plan has been reclassified from a private purpose trust fund to a pension (and other employee benefit) trust fund (see *Note 2*).

Purpose for restatements:

Restatements were made to all appropriated state funds to reclassify cash equivalents as investments for securities and other moneys that have an average maturity of greater than 90 days. Fund balance/net assets were restated by the amount of the unrealized gain or loss on the investments to report these investments at fair value.

Governmental funds were also restated as a result of additional information received relating to prior year revenue corrections, increases/decreases in accounts payable, and inventory. The largest restatement for Governmental funds was a \$56.7 million increase to the General Fund's accounts payable.

Non-major enterprise funds were restated mainly due to a \$13.5 million increase to the State Parks Fund's net assets to include land and buildings not previously reported.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 17 – Restatements (cont.)

Internal service funds were restated mainly due to a \$7.1 million increase in accumulated depreciation for the State Facility and Operation Fund.

College and university net assets were restated to record corrections made to prepaid expenses, fixed assets, funds held for others, and payables.

On the Government-Wide Statement of Activities, net assets for governmental activities were restated by the amounts shown on the restatement schedule for governmental funds and internal service funds. In addition, net assets for governmental activities were restated to account for the net pension obligation that was not reported as a liability last year.

Obligations under capital lease for governmental activities were restated as most lease contracts were written with a lease term of one year and a series of renewal options. The new language no longer qualifies most leases as capital in nature. Immaterial restatements were also made to other long-term liability accounts and other government-wide reconciling items.

Capital assets for governmental activities were restated as a result of additional information received related to prior year corrections.

Net assets for business-type activities on the Government-Wide Statement of Activities were restated by the sum of all amounts shown on the restatement schedule for enterprise funds. As mentioned earlier, the restatements were primarily to include State Parks' land and buildings not previously reported.

Note 18 – Fund Deficit

The following funds had deficit balances:

Enterprise Fund – Unemployment Compensation – At June 30, 2004, this fund had a net asset deficit of \$83,025,000. This deficit occurred when revenue from employers' state unemployment contributions were not sufficient to cover the cost of unemployment benefits paid. In order to continue paying unemployment benefits, the fund borrowed from the U.S. Treasury as allowed by Title XII of the Social Security Act. The fund's Title XII liability was \$288,557,000 at June 30, 2004. House Bills 1268 and 1211, passed during the fiscal year and signed by the Governor, will increase employer contributions into the fund and authorizes the refinancing of this liability through the issuance of debt instruments. Beginning in calendar year 2005, if the Title XII advances are not refinanced, the federal government will reduce federal employer unemployment tax credits, thereby increasing federal unemployment tax collections and will use these additional collections to pay off the fund's liability over the next several years.

Enterprise Fund – Petroleum Storage Tank – At June 30, 2004, this fund had a net asset deficit of \$61,236,000. The restated deficit at June 30, 2003 was \$74,871,000. The deficit occurred when transport load fees collected were not sufficient to cover the estimated claims liability for clean up of petroleum storage tank leaks. This liability amount is the cumulative result of numerous years of petroleum storage tank leaks. Per Section 319.129, RSMo, this fund will be closed on December 31, 2010, or upon revocation of federal regulation 40 CFR, whichever occurs first, unless extended by action of the general assembly. Various alternatives are being considered to pay off the claims liability amount of this fund. Per Section 319.131, RSMo, the liability of the petroleum storage tank fund is not the liability of the State. Upon dissolution of this fund, the liability would be liquidated.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 18 – Fund Deficit (cont.)

Enterprise Fund – Missouri Veterans' Homes – At June 30, 2004, this fund had a net asset deficit of \$27,000. The restated deficit at June 30, 2003 was \$422,000. The deficit occurred when rising medical costs, especially pharmacy expenses, outpaced increased funding. The annual spending authority from the fund exceeds the revenues. However, per Section 313.835, RSMo, the Veterans' Commission Capital Improvement Trust Fund is authorized to make fund transfers to the Missouri Veterans' Home Fund as necessary to maintain solvency. The current situation is being monitored closely by the Department of Public Safety. Possible solutions include cost containment of medical costs, increased general revenue funding, and increased funding from the federal government. A last resort may involve higher charges to residents.

Internal Service Fund – Transportation Self-Insurance Plan – At June 30, 2004, this fund had a net assets deficit of \$3,143,000. This deficit was \$5,282,000 at June 30, 2003. The deficit occurred when revenue from insurance premiums were not sufficient to cover the cost of claims. The self-insurance plan is subject to annual actuarial review which is done on a calendar year basis. An actuarial study was completed in April 2004. The fiscal year 2005 appropriations were based on the actuarial study and budget availability. Increases in appropriations should eliminate the deficit over time.

Component Unit – Missouri Highway 63 Transportation Corporation – At June 30, 2004, the transportation corporation had a net asset deficit of \$87,000. This deficit was \$94,000 at June 30, 2003. This deficit initially occurred because the corporation was established during fiscal year 2003 and incurred one-time start up expenses. According to the Missouri Highway 63 Transportation Corporation's audited financial statements, the City of Kirksville has agreed to fund any corporation net asset deficits.

Note 19 – Related Party Transactions

The Missouri State Public Employees' Deferred Compensation Plan is administered by the Public Employees Benefit Services Corporation of Missouri (PEBSCO) under a contract for a term ending December 31, 2005. PEBSCO is a wholly-owned subsidiary of Nationwide Corporation of Columbus, Ohio. Nationwide Life Insurance Company, one of the guaranteed fixed annuity and variable annuity underwriters for the Plan, is also a subsidiary of Nationwide Corporation. At December 31, 2003, total investments of the Plan were \$860,352,000 and investments in Nationwide Life Insurance Company were \$750,721,000.

Note 20 – Commitments

Contracts

The Department of Conservation had contracts outstanding of \$226,000 for land acquisition and \$4,854,000 for construction contracts at June 30, 2004. These contracts are funded through the special revenue funds from specific sales tax, fees and permits.

The Department of Transportation had long-term contracts of \$682,960,000 outstanding at June 30, 2004. These contracts are paid from capital projects funds with approximately 73.37% federal reimbursement expected.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 20 – Commitments (cont.)

The Office of Administration, Division of Design and Construction, had construction contracts outstanding at June 30, 2004, of \$49,320,000. Approximately 11% will be paid from the General Fund, 4% from special revenue funds, 60% from capital projects funds, and 25% from internal service funds.

The Department of Elementary and Secondary Education has desegregation payments outstanding of \$55 million at June 30, 2004. These payments are due to the St. Louis Public School District based upon Court Order L(266)99 approving the 1999 settlement agreement requiring annual payments. The future payments are as follows:

July 1, 2005	\$13 million
July 1, 2006	\$12 million
July 1, 2007	\$11 million
July 1, 2008	\$10 million
July 1, 2009	\$ 9 million

On March 10, 1988, the State of Missouri entered into a contract with the United States Army Corps of Engineers confirming an assurance agreement of April 8, 1965. The State obtained rights to a portion of the water supply storage from the Clarence Cannon Dam and Mark Twain Lake Project. The State agreed to pay up to \$10.8 million plus interest for the investment costs allocated to the water supply storage, the amount of such payments to be determined by the portion of the water storage space put in use by the State for that purpose. The contract provided a ten year interest free period running from 1984 to 1994. In fiscal year 1995, the State began making interest payments. The interest payment amount for fiscal year 2004 was \$362,000. Payment of principal and interest must be completed by the end of a 50 year period beginning from the date of the contract (March 1988).

Note 21 – Landfill Closure and Postclosure

The State does not own any municipal solid waste landfills (MSWLF), however, the State does pay for closure and postclosure care requirements in the event the owner refuses or is unable to properly maintain his/her landfill. Each landfill owner must obtain a financial assurance instrument to be held by the State as collateral. These financial instruments can include financial guarantee bonds, performance bonds, letters of credit, insurance policies, corporate guarantees, contracts of obligation, trust funds, or escrow accounts. At June 30, 2004, the value of non-forfeited financial assurance instruments was \$274,761,000, which is reported in agency funds.

At June 30, 2004, seven MSWLF's and one waste tire site have defaulted on their obligation to pay closure and postclosure care costs. Financial assurance instruments in the amount of \$675,000 have been forfeited to the State as authorized by Missouri Revised Statutes Chapter 260, Section 228. The State has assumed responsibility for these related costs. All of the MSWLF's the State has assumed responsibility for were closed between 1994 and 2000. The State will monitor and pay postclosure expenses for 30 years in accordance with EPA regulations. At June 30, 2004, it is expected that \$902,000 will be paid over the remaining monitoring periods. This is the amount that has been reserved on the combining balance sheet of the governmental funds for landfill postclosure care costs.

Note 22 – Contingencies

The State is exposed to various risks of loss related to tort liability, general liability, motor vehicle liability, contractor liability, and injuries to employees. The State assumes its own liability for risks except for the purchase of surety bond, aircraft, and boiler coverage.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 22 – Contingencies (cont.)

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported including the effects of specific, incremental claim adjustment expenditures/expenses, salvage, subrogation, and other allocated or unallocated claim adjustment expenditures/expenses. Liabilities of governmental funds are reported as a reconciling item to the Government-Wide Statement of Net Assets. Expenditures are recognized as payments are made.

At June 30, 2004, the amount of the contingent liabilities was \$216 million. Changes in the reported liability since June 30, 2003, resulted from the following:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance Fiscal Year End
2003–2004	\$ 111,784,447	\$ 139,300,560	\$ (35,483,758)	\$ 215,601,249
2002–2003	226,293,410	(84,500,674)	(30,008,289)	111,784,447
2001–2002 *	33,197,671	223,770,916	(30,675,177)	226,293,410

*Restated to exclude Second Injury Fund.

RSMo 287.220.6 requires that an actuarial study of the Second Injury Fund be made every three years to determine the solvency of the Fund. Figures presented below for current year claims and changes in estimates are based on the 2001 and 2004 actuarial studies. At June 30, 2004, the amount of liabilities for the Second Injury Fund was \$750 million. Changes in the reported liability since June 30, 2003, resulted from the following:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance Fiscal Year End
2003–2004	\$ 201,127,755	\$ 605,454,470	\$ (56,982,225)	\$ 749,600,000
2002–2003	242,596,242	8,740,950	(50,209,437)	201,127,755
2001–2002	280,087,260	7,265,256	(44,756,274)	242,596,242

The State receives federal grants which are subject to review and audit by federal grantor agencies. This could result in requests for reimbursements to the grantor agency for expenditures which are disallowed under grant terms. The State believes that such disallowances, if any, would be immaterial.

Loan Guarantees:

The State appropriates money to the Development Finance Board for the purpose of making loan guarantees. Upon default of a guaranteed loan, the Board makes the payment for default from state appropriations. The total loans outstanding at June 30, 2004, for which the Board has guaranteed payment is \$7,000. During 2004, no loans defaulted.

The State appropriates money to the Agricultural and Small Business Development Authority for the purpose of making loan guarantees. Upon default of a guaranteed loan, the Authority makes the payment for default from State appropriations. The Authority administers the Single-Purpose Animal Facilities Loan Program and the Value Added Loan Guarantee Program, which provides a 25% first-loss guarantee on loans up to \$250,000. The total of loans outstanding at June 30, 2004, for which the Authority has guaranteed payment is \$3,360,000 and \$1,116,000, respectively. There were no loan default payments for the Single-Purpose Animal Facilities Loan Program, however the Authority did make payments in the amount of \$35,000 for defaults in the Value Added Loan Guarantee Program.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 22 – Contingencies (cont.)

Medicaid Lawsuits:

Blessing Hospital, Gravette Medical Center Hospital, and Shelby County Health Care Corp vs. Department of Social Services, Division of Medical Services (DSS/DMS) (Case No. 03CV324295). These out of state hospitals filed a lawsuit against the DSS/DMS in the Circuit Court of Cole County, Missouri, challenging the reimbursement rate paid by Missouri to out of state hospitals on behalf of Missouri Medicaid beneficiaries. The claim is currently unliquidated and is being disputed. Counsel estimates the claims may exceed \$2,500,000 in the event of an adverse judgment.

Alliance for Community Health vs. DSS/DMS – Administrative Hearing Commission (Case No. 02-0088SP), et al – DSS reduced payments to the managed care provider when the provider failed to achieve the contractual requirement that it meet an 80% screening rate for Medicaid's Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT). Alliance is seeking judgment in the amount of \$3,800,000.

Sales Tax Lawsuits:

Southwestern Bell Telephone Company vs. Director of Revenue (Case No. SC83859). The Missouri Supreme Court held that Southwestern Bell Telephone Company was entitled to a refund of sales and use tax paid on machinery and equipment used to create its digital phone service product. Manufacturing was found to include producing taxable services as well as tangible personal property products. The case was remanded to the Administrative Hearing Commission for further determination as to which items are used in manufacturing the digital phone service product. Refunds to Southwestern Bell and other related companies could adversely affect the State's General Revenue Fund by \$77.2 million.

The Missouri Supreme Court has ruled that hotel guests in effect purchase the electricity used in their room during their stay at the hotel and, therefore, applicable charges are exempt from sales tax. This pertains to water, gas, and other items used in hotel rooms as well. Requests by hotels/motels for refunds could adversely affect the State's General Revenue Fund by \$32.3 million.

The State has brought an appeal before the Missouri Supreme Court of a lower court's decision to classify caskets and vaults as fixtures of a funeral home until being sold to a customer. This would make the funeral home's purchase price, but not the sales price, taxable to the funeral home. Requests by funeral homes for refunds could adversely affect the State's General Revenue Fund by \$1.8 million.

The Missouri Supreme Court has ruled that a business that operates a cafeteria solely for the benefit of its employees is not serving food to the general public and is exempt from sales tax on food items sold to the business' employees. Requests by businesses for refunds could adversely affect the State's General Revenue Fund by \$1.3 million.

Education Lawsuits:

Two education lawsuits are pending; Board of Education of the City of St. Louis and Voluntary Interdistrict Choice Corporation (VICC) vs. the State of Missouri and the Missouri State Board of Education (Case No. 034-00284), filed in the Circuit Court of St. Louis City, and Committee for Educational Equality, et al vs. the State of Missouri, et al (Case No. 04CV323022), filed in the Circuit Court of Cole County. Decisions in these cases may require additional state money or a revision to the current school aid formula.

Contractual Lawsuit:

LogistiCare Solutions, LLC vs. Office of Administration, (Case No. 04CV325071), et al – This out of state medical transportation company filed a lawsuit that disputes the State's decision to terminate the contract with LogistiCare. The contract provides Missouri Medicaid/MC+ recipients with free transportation to and from scheduled services. The case is pending and it is not possible to estimate the cost at this time.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 23 – Joint Ventures

The Regional Convention and Sports Complex Authority was created by state law for the purpose of financing, constructing, operating, and maintaining a multipurpose convention and sports facility to be located in the City of St. Louis. The Authority operates under a board of commissioners of whom five are appointed by the Governor of the State, three by the Mayor of the City of St. Louis, and three by the County Executive of St. Louis County. The Authority is granted all rights and powers necessary to plan, finance, construct, equip, and maintain the facility.

The Authority is considered a joint venture of the State, County and City because it constitutes a contractual agreement for public benefit in which the State, County and City retain an ongoing financial responsibility for the Convention and Sports Facility Project Bonds. In August 1991, the Authority issued \$258,670,000 of Convention and Sports Facility Project Bonds. The bonds were sponsored in the amount of \$132,910,000 by the State (Series A), \$65,685,000 by the County (Series B) and \$60,075,000 by the City (Series C). In December 1993, the Authority issued \$181,885,000 in Convention and Sports Facility Project and Refunding Bonds to advance refund \$101,410,000 and \$50,275,000 of the outstanding 1991 Series A and Series B bonds, respectively, and for additional construction costs. The bonds were sponsored in the amount of \$121,705,000 by the State (Series A) and \$60,180,000 by the County (Series B). In February 1997, the Authority issued \$61,285,000 in Series C Refunding bonds to advance refund \$47,155,000 of the outstanding 1991 Series C bonds. In August 2003, the Authority issued \$116,030,000 of Convention and Sports Facility Project and Refunding Bonds, Series A 2003 to refund \$2,845,000 and \$113,170,000 of Series A 1991 and Series A 1993 Refunding Bonds, respectively, and for additional construction costs.

Pursuant to a financing agreement entered into in August 1991, the Authority leased the facility to the sponsors who subleased the facility back to the Authority. The payments made by the State, County and City under the financing agreement are sufficient to pay the principal and interest on the bonds. See *Notes 12 and 13* for more information on the 1991, 1993, and 2003 Series A Bonds sponsored by the State.

Summary financial information for the Authority as of, and for the fiscal year ended December 31, 2003, is presented below (in thousands of dollars):

Total Assets	\$ 323,505
Total Liabilities	\$ 226,462
Total Equity	97,043
Total Liabilities and Equity	<u>\$ 323,505</u>
Total Revenues	\$ 25,707
Total Expenses	24,245
Net Increase in Retained Earnings	<u>\$ 1,462</u>

Copies of the Authority's financial statements can be requested from:

St. Louis Regional Convention
and Sports Complex Authority
901 North Broadway
St. Louis, Missouri 63101

**STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004**

Note 24 – Related Organizations

The State is responsible for appointing all or part of the members of the boards of other organizations, but the State's accountability for these organizations does not extend beyond making the appointments.

The following organizations are considered to be related organizations of the State of Missouri:

Missouri Health and Educational Facilities Authority – The Authority was created by state law and is authorized to issue revenue bonds to finance health and educational facilities for institutions within the State. The Authority also assists institutions in borrowing funds at the lowest possible cost in order to provide quality medical and educational services to State residents. These bonds do not constitute a debt or liability of the Authority or the State. Its governing body consists of seven members appointed by the Governor with the advice and consent of the Senate. The Authority's fiscal year ends December 31. Copies of the Authority's financial statements can be requested from:

Missouri Health and Educational
Facilities Authority
15450 South Outer Forty Road, Suite 230
Chesterfield, Missouri 63017
Web Site: www.mohefa.org

Missouri Higher Education Loan Authority – The Authority was created by state law and is authorized to issue debt to provide a secondary market for loans made under the Federal Family Education Loan Program provided for by the Higher Education Act. Its governing body consists of seven members, five of whom are appointed by the Governor with the advice and consent of the Senate, each of whom shall be a resident of the State; a member of the Coordinating Board of Higher Education; and the Commissioner of Higher Education. Copies of the Authority's financial statements can be requested from:

Missouri Higher Education Loan Authority
633 Spirit Drive
Chesterfield, Missouri 63005
Web Site: www.mohela.com

Missouri Housing Development Commission – The Commission was created by state law and is authorized to make or purchase mortgage loans and to insure mortgage loans, the funds of which are used to develop new or rehabilitate low and moderate income housing. The Commission is also authorized to issue bonds and notes for making or purchasing such loans. Bonds and notes issued by the Commission are not a debt of the State. The Commission has entered into a contract with the Department of Economic Development whereby the Department pays the Commission's staff salaries and related benefits from cash advanced monthly by the Commission. Its governing body is made up of the Governor, the Lieutenant Governor, the State Treasurer, the Attorney General and six members appointed by the Governor with the advice and consent of the Senate. If for any reason the Commission ceases to exist, its rights and properties shall pass to and be vested in the State, subject to the rights of lien holders and other creditors. Copies of the Commission's financial statements can be requested from:

Missouri Housing Development Commission
3435 Broadway
Kansas City, Missouri 64111
Web site: www.mhdc.com

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 24 – Related Organizations (cont.)

Missouri Technology Corporation – The Corporation was created by state law and contributes to the strengthening of the State's economy through the development of science and technology, promotes the modernization of Missouri businesses by supporting the transfer of science, technology and quality improvement methods to the workplace and enhances the productivity and modernization of Missouri businesses by providing leadership in the establishment of methods of technology application, technology commercialization and technology development. Its governing body consist of the director of the Department of Economic Development, the president of the University of Missouri System, a member of the Senate and a member of the House of Representatives, and eleven members appointed by the Governor. Copies of the Corporation's financial statements can be requested from:

Missouri Technology Corporation
102 East High Street
P.O. Box 2137
Jefferson City, Missouri 65102
Web Site: www.missouritechnology.com

Missouri Public Entity Risk Management Fund – The Fund was created by state law and is authorized to provide liability protection to participating public entities, their officials and employees. The Fund reimburses the State of Missouri for all administrative costs. Its governing body consists of six members; the Attorney General, the Commissioner of Administration and four members appointed by the Governor with the advice and consent of the Senate. Copies of the Fund's financial statements can be requested from:

Missouri Public Entity Risk
Management Fund
P.O. Box 105080
2010 Williams Street
Jefferson City, Missouri 65110-5080
Web Site: www.moperm.com

Public School Retirement System – The System was created by state law and provides retirement benefits to employees of public school districts in the State, with the exception of the St. Louis and Kansas City districts. The State participates in the System as an employer of certified teachers who are members. However, the major financial support is from the public school districts. Its governing body consists of seven members; four elected by the System's members, and three members appointed by the Governor with the advice and consent of the Senate. Copies of the System's financial statements can be requested from:

Public School Retirement System
of Missouri
P.O. Box 268
3210 West Truman Boulevard
Jefferson City, Missouri 65109
Web Site: www.ntrsmo.org

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 24 – Related Organizations (cont.)

State Environmental Improvement and Energy Resources Authority – The Authority, created by state law, is an independent, self-supporting, quasi-governmental agency, governed by a five member board appointed by the Governor with the advice and consent of the Senate. The Authority is administratively placed in the Department of Natural Resources. The Authority is authorized to finance, acquire, construct and equip projects for the purpose of reducing, preventing or controlling pollution and to provide for the development of energy resources of the State. The usual method of financing is through the issuance of tax-exempt revenue bonds and notes. In March 1992, pursuant to Senate Bill #530, Section 260.335, RSMo, the Authority entered into an interagency agreement with the Department of Natural Resources and the Department of Economic Development to promote markets for recycled materials. As required in that legislation, the program has been provided annual funding of \$1,000,000 upon appropriation by the Missouri Legislature, from the Solid Waste Management Fund, through fiscal year 1997. In fiscal year 1998, the funding changed to 10% of the Fund, not to exceed \$1,000,000. The Authority, in cooperation with the Missouri Clean Water Commission and other agencies, established and operates the State Revolving Fund, which provides financing to communities and districts for construction of clean water and drinking water projects. The Authority is a provider of technical research for the State. Partnerships have been created with entities, both public and private, to promote and educate Missouri's citizens on a variety of environmental and energy related topics. The Authority's employees are covered under the State's retirement system with all contributions being made by the Authority. Upon termination or dissolution of the Authority, all rights and properties shall pass to and be vested in the State, subject to the rights of note holders, bondholders and other creditors. Copies of the Authority's financial statements can be requested from:

State Environmental Improvement and
Energy Resources Authority
325 Jefferson Street, Suite 200
Jefferson City, Missouri 65101
Web Site: www.dnr.state.mo.us/eiera

Jackson County Sports Complex Authority – The Authority was created by state law and is responsible for the construction, operation and financing of the Jackson County Sports Complex. The funds and related accounts are maintained by fiscal agents who administer all investment transactions and act as paying agents for bond transactions. Its governing body consists of five members appointed by the Governor with the advice and consent of the Senate. Copies of the Authority's financial statements can be requested from:

Jackson County Sports Complex Authority
8501 Stadium Drive
Kansas City, Missouri 64129-1698

Kansas City Regional Sports Complex Authority – The Authority was created by state law and is responsible for the study and review of all current major sports leagues, clubs, or franchises operating in Kansas City and analyzing the possibilities of future growth. Its governing body consists of the director of the Department of Economic Development, as well as seven members appointed by the Governor with the advice and consent of the Senate. Copies of the Authority's financial statements can be requested from:

Kansas City Regional Sports Complex Authority
c/o City of Kansas City
City Treasurer
1st Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106-2793

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 24 – Related Organizations (cont.)

St. Charles County Convention and Sports Facility Authority – The Authority was created by state law and is responsible for planning, constructing, and managing convention and sports facilities in the St. Charles area. Its governing body consists of five members appointed by the Governor with the advice and consent of the Senate. Copies of the Authority's financial statements can be requested from:

St. Charles County Convention and
Sports Facility Authority
P.O. Box 858
St. Charles, Missouri 63302

Missouri Cotton Growers Organization, Inc. – The organization was created by state law and is designated as the official organization for boll weevil eradication in Missouri. The organization operates under the guidance of a ten member board of directors with oversight from the U.S. Department of Agriculture and Missouri Department of Agriculture. Copies of the Organization's financial statements can be requested from:

Missouri Cotton Growers Organization, Inc.
P.O. Box 160
Portageville, Missouri 63873

KCT Intermodal Transportation Corporation (KCT-ITC) – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. KCT-ITC is authorized to issue revenue bonds for the purpose of paying all or any part of the cost of constructing a railroad bridge to effectuate a grade separation of two at-grade rail crossings in the Blue Valley Industrial District in Kansas City, Missouri. The KCT-ITC's obligations are financed by a cost-sharing agreement of the member railroads of Kansas City Terminal. The governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. Copies of the Corporation's financial statements can be requested from:

KCT Intermodal Transportation Corporation
Attention: Executive Director
Kansas City Terminal Railway Corporation
4501 Kansas Avenue
Kansas City, Kansas 66106

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
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Note 24 – Related Organizations (cont.)

Lake of the Ozarks Community Bridge Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. It is authorized to issue revenue bonds for the purpose of paying all or any part of the cost for acquisition and construction of a toll bridge over the Lake of the Ozarks in Camden County. Its governing body consists of a seven member board of directors each of whom is appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed has been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. The Corporation's fiscal year ends April 30. Copies of the Corporation's financial statements can be requested from:

Lake of the Ozarks Community
Bridge Corporation
P.O. Box 579
Lake Ozark, Missouri 65049

Highway 19 Missouri River Bridge Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. It is authorized to establish, promote, acquire, develop, construct, own, operate, maintain right-of-ways, and highway projects and facilities. The Highways and Transportation Commission must either own or have a beneficial interest in the project. It must be desirable to the provision of public highways, and be approved by the Commission, the County Commissions of the counties of Gasconade and Montgomery, and the Board of Alderman of the City of Hermann. Its governing body consists of any number of persons, not less than six. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Highway 19 Missouri River Bridge
Transportation Corporation
c/o Jon Held
1110 Stone Hill Highway
Hermann, Missouri 65041

Westside Intermodal Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. It is authorized to issue revenue bonds for the purpose of paying all or any part of the cost of constructing an elevated rail structure to allow for the connecting of the Kansas City Terminal Railway (KTCR) Company's main line to the Union Pacific Railroad Company's yards and main lines and to effectuate a grade separation of certain main line rail tracks near Burlington Northern Santa Fe Argentine Yard and KTCR's main lines. Its governing body consists of any number of persons, not less than six. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Westside Intermodal Transportation Corporation
c/o Kansas City Terminal Railway Company
4501 Kansas Avenue
Kansas City, Kansas 66106

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 25– Subsequent Events

Agricultural and Small Business Development Authority:

Between July 1 and September 3, 2004, the Authority issued Certificates of Guarantee in the amount of \$172,000 guaranteeing 25% of the \$690,000 loans issued.

Petroleum Storage Tank Insurance Fund (PSTIF):

On July 28, 2004, the Petroleum Storage Tank Insurance Board released five remedial claims, which increased the claims payable by approximately \$240,000. These remedial claims had been filed since May 1, 2004. Remedial claims are those claims filed by tank owners and operators who do not have a contract for insurance with the PSTIF, but for which the PSTIF may extend coverage.

Missouri Housing Development Commission:

On July 14, 2004, the Commission issued \$3,785,000 of Multifamily Housing Revenue Bonds (FP–San Remo Apartments Project), Series V 2004.

On August 9, 2004, the Commission issued \$6,735,000 of Multifamily Housing Revenue Bonds (Allen Market Lane Apartments Project), Series VI 2004.

On August 26, 2004, the Commission issued \$60,000,000 of Single Family Mortgage Revenue Bonds (Homeownership Loan Program), Series C 2004.

Southwest Missouri State University:

On September 7, 2004, the University entered into a capital lease–purchase agreement with Johnson Controls for the installation of energy savings improvements in various locations throughout the Springfield campus. The total amount financed will be \$10,902,000 with annual payments of \$1,052,000 beginning on August 30, 2006, or the date on which a certificate of substantial completion is executed, whichever is earlier.

Development Finance Board:

On October 13, 2004, the Board acquired title from the U.S. General Services Administration to the “Old Post Office Project,” which consists of the acquisition and renovation of the U.S. Custom House and Old Post Office in downtown St. Louis. The Board then executed a 99–year lease of this project with St. Louis U.S. Custom House and Post Office Building Associates, L.P. (lessee). On October 14, 2004, the Board made a subordinated loan to the lessee in the amount of \$12,356,800 to assist in the financing of the “Old Post Office Project.” The Board has an option to purchase the Old Post Office from the lessee at fair market value beginning in 2014.

On October 14, 2004, the Board issued \$16,500,000 of Infrastructure Facilities Revenue Bonds (Ninth Street Garage Project) Series 2004. These are variable rate bonds with a scheduled maturity date of October 1, 2034. Bond proceeds will be used toward the development and construction of a 1,050 space, multi–level parking garage in downtown St. Louis.